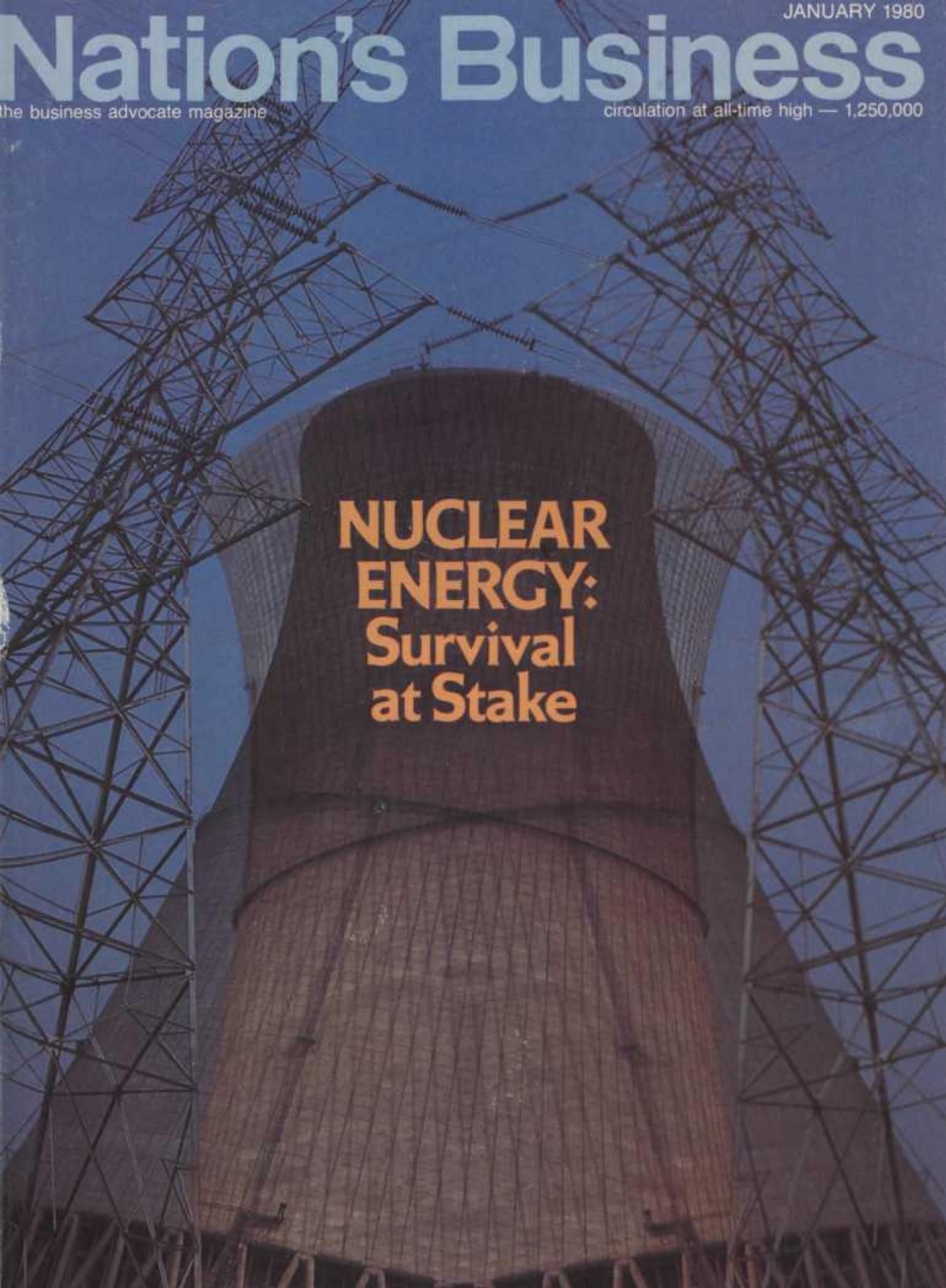


JANUARY 1980

Nation's Business

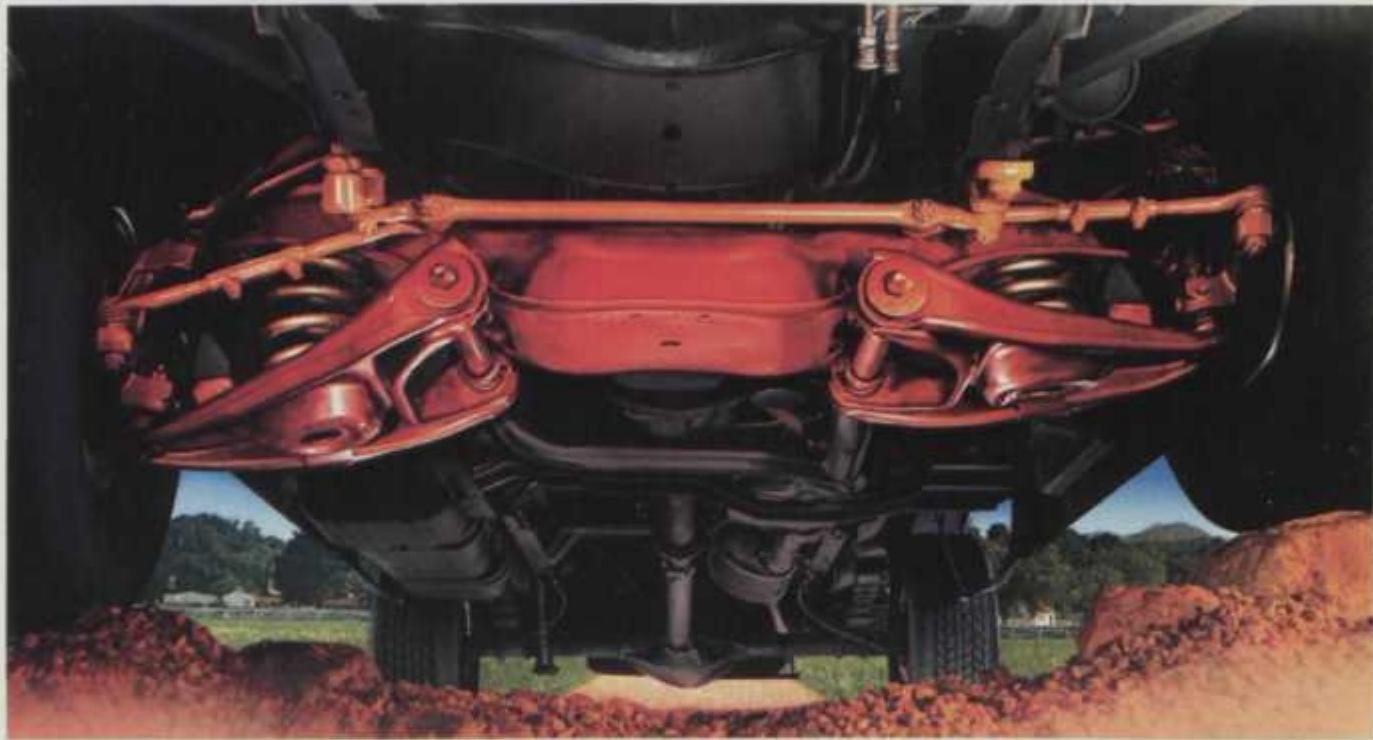
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NUCLEAR ENERGY: *Survival at Stake*

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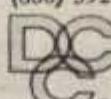
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5 The Nation's Business Washington Letter

JAMES J. KILPATRICK

11 The Quadrennial Lunacy

NATION'S BUSINESS OUTLOOK

14 Budget Projections Way Off

20 Working for the Gold

26 Campaign '80: The Primary Bandwagon

31 Asia Incorporated—the ASEAN Story

40 Congress Will Put Most Issues on Hold

42 Is the Development Agency Ready to Come of Age?

LESSONS OF LEADERSHIP

46 For Lou Menk, Railroading Has Been a Lifetime Trip

52 Nuclear Energy: Survival at Stake

BUSINESS LIFE-STYLE

64 A Smile Set to Music

72 Lower Profit Margins to Hinder Growth

BUSINESS CONFIDENCE SURVEY

74 Gloom Gathers Over Sales and Profits

PEOPLE IN BUSINESS

77 Treating the Traveling Woman Right

EDITORIAL

80 Shaping a New Future for Small Business

SPECIAL ADVERTISING SECTION

MEXICO—Update 1980

Departments

5 Washington Letter

8 Letters to the Editor

11 James J. Kilpatrick

14 Outlook

41 Sound Off to the Editor

51 Sound Off Response

64 Business Life-Style

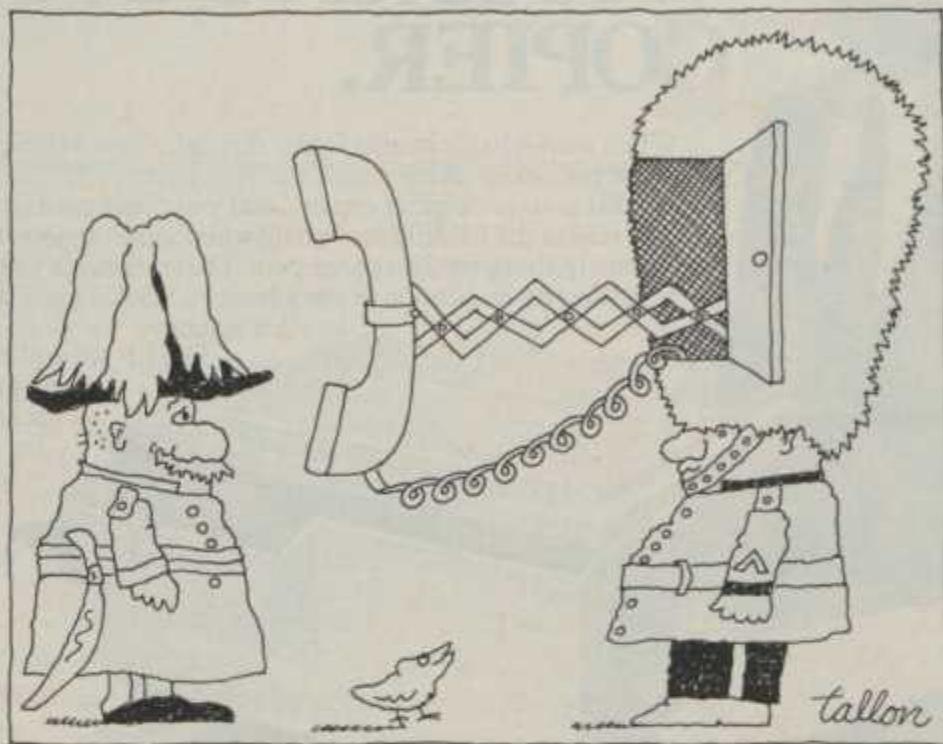
77 People in Business

80 Editorial

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Birmingham	21	Glasgow	41	Manchester	61
Bradford	274	Leeds	532	Nottingham	602
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Coventry	203	Liverpool	51	Southampton	703



Bell System

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The reason the EP 310 keeps going when some copiers stop, is because it has an extremely short, straight paper path. That means it's virtually jam proof.

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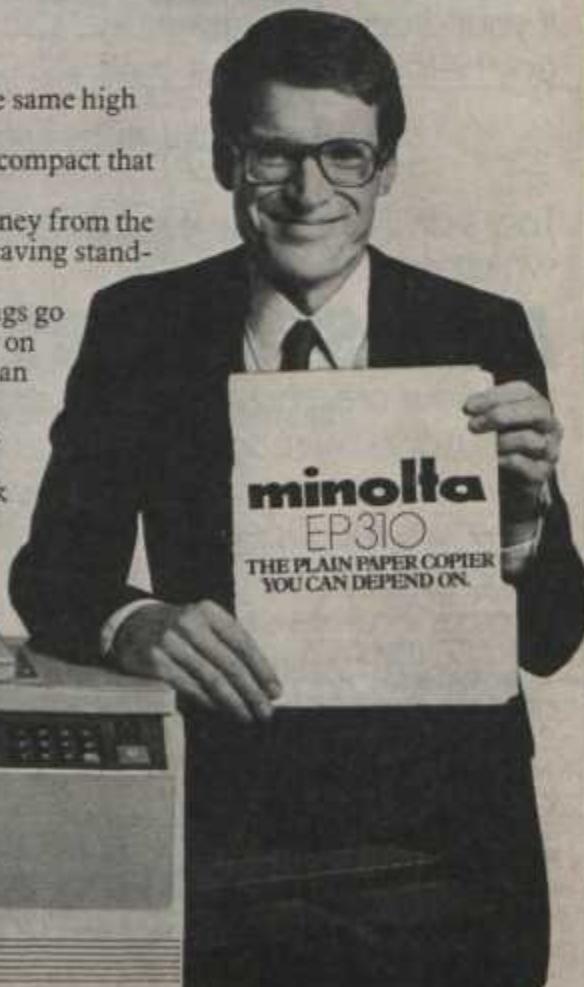
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The Nation's Business

WASHINGTON LETTER

► THERE'S TALK IN WASHINGTON of war or depression because of energy supply problems. And it's coming from some levelheaded observers of world events.

Threat is not acute yet, but there's ample cause for concern.

Energy sources--potential and existing--are adequate, say experts. But policies of U. S. government may cripple U. S. supplies, while policies of OPEC oil cartel threaten financial system underlying world trade.

Political instability of Middle East is a big worry, too.

Net: There are too many things that could go wrong to assume that none will.

► WHITE HOUSE BRIEFING on Iran left her "deeply discouraged and very worried" about serious disruption of energy supplies, says Washington Governor Dixie Lee Ray.

Gov. Ray, former head of the Atomic Energy Commission, says U. S. energy policies are also a threat to economic future of our country.

"We need not run out of resources if we keep our common sense," she says. But there are so many high-level federal officials "who do not believe in our energy future . . . that the government is becoming committed to the deindustrialization of this country."

► CATASTROPHIC DEPRESSION would result if we lose Saudi Arabian oil. Rep. Mike McCormack (D.-Wash.) warned a conference sponsored by Producers' Advisory Council, a construction industry group, and this magazine.

Increased domestic production and stringent conservation are essential, he says.

Emphasizing that nuclear power may be most important source of energy for U. S. in closing years of 20th century, Rep.

McCormack attacked actions of "rabid nuclear opponents" in Congress.

He says strong national leadership is needed to redraft laws and regulations hampering U. S. energy development.

► CAN YOU DEPEND on your electric power supply? Better check with your utility.

Regional shortages are likely soon, according to Electric Power Research Institute, an industry-funded study group.

Even with conservation, institute says, U. S. consumption will grow 4.7 percent a year for next two decades. Meeting demand will take threefold increase in coal output and expansion of nuclear power capacity, experts say.

► TWO MILLION BARRELS OF OIL A DAY is what so-called windfall profits tax may cost United States, says Walter Peirson, executive vice president of Standard Oil Co. (Indiana).

Here's how he gets that figure: Regular taxes at various levels of government would take 60 percent of any new revenue generated by oil price decontrol.

Remaining 40 percent of new revenue, if invested, could boost domestic production by four million barrels a day. But new tax would take half that revenue.

► ARE WINDFALL OIL PROFITS A MYTH fanned by politicians seeking more tax money?

Maybe. Higher industry profits in late 1979 were real enough. Industry attributes them to overseas operations.

But would decontrol cause another upward surge in profits? Some experts are questioning that widespread assumption.

For profits to spurt, they say, retail prices would have to rise sharply. But controlled price of gasoline here is now very close to uncontrolled price in Europe. Major difference in posted prices

WASHINGTON LETTER

comes from higher national taxes there.

If competition, not controls, is setting prices, then price won't leap upward following decontrol. If price doesn't rise, neither will profits. If profits don't go up, any new tax on U. S. oil industry would hurt industry's ability to finance exploration and development.

► KEEP AN EYE ON your state's emergency energy conservation plan. It's important.

Plans are required by Emergency Energy Conservation Act of 1979. State-by-state conservation targets are to be set by President.

If state-developed plan to meet target is not approved by Secretary of Energy, then federal plan may be imposed.

Risk to business: State plan may call for conservation achieved mostly at expense of business if business people fail to participate in its development.

National conservation plan--with state targets--is due in Federal Register of February 4.

► BIG FIGHT COMING over next general counsel of National Labor Relations Board.

Post--now vacant--is very powerful. General counsel reviews charges brought by management or labor, decides which to prosecute. If general counsel refuses to issue a complaint, there's no recourse.

Carter administration has nominated William A. Lubbers, now NLRB executive secretary and formerly on staff of John Fanning, board chairman.

Business groups consider Mr. Lubbers prounion, favor other candidates. Unions like him.

White House, knowing of business opposition, nominated Mr. Lubbers anyway.

Confirmation process may end in major battle on Senate floor unless nomination is withdrawn.

► NEW PAY ADVISORY COMMITTEE is trying to skirt sunshine law.

Its first formal recommendation to Council on Wage and Price Stability was adopted in open session, as law requires, but contents of document were kept secret.

Committee Chairman John Dunlop told reporters: "If I can't send a document

to [COWPS chairman] Kahn without making it public, you can all go to hell."

► BESIDES NAMING LANE KIRKLAND PRESIDENT, AFL-CIO convention considered 309 resolutions, adopting 122 of them. All could affect your pocketbook.

Labor federation wants more federal money for social security, medicare, mass transit, national health care, water and sewer projects, unemployment insurance, workers' compensation, education, local government services, housing subsidies, and job subsidies, among other things.

Delegates also registered their concern over high rate of inflation.

► WHAT'S IN STORE FOR BUSINESS if organized labor has its way? Here's brief selection from shopping list at AFL-CIO convention:

Federal charters for corporations with more than \$1 billion in sales or assets.

A majority of outside directors on corporate boards.

Prohibition of large mergers.

Credit allocation.

More stringent federal regulation.

Breakup of land monopolies.

End to investment tax credit.

Repeal of 14b, which permits state bans on the union shop.

Mandatory relocation aid to workers affected by plant closings.

Labor law reform.

► NEW VERSION OF VALUE-ADDED TAX proposal is coming from Rep. Al Ullman (D.-Oregon). He's chairman of House Ways and Means Committee.

Stung by criticism and notable lack of support for VAT plan introduced as trial balloon last fall, Rep. Ullman vows to have another try at it.

Original draft featured a ten percent value-added tax expected to generate \$130 billion a year in new revenue. Revenue gain was to be offset by corresponding cuts in social security and income taxes.

New draft will have clearer offset provisions, says Rep. Ullman, so people will see VAT as substitute tax, rather than additional one.

I Run an Insurance Company. And I'm Deeply Concerned.



I'm concerned about a number of things: the devastating impact of inflation; the proliferation of government restrictions; the growing acceptance of a "something-for-nothing" attitude on the part of our courts.

But most of all, I'm concerned about what I consider my own industry's worst failure: the failure to tell our side of the story to the public.

Time after time, property/casualty insurance companies are accused of setting their rates too high . . . or not making their policies "affordable."

That's nonsense. The simple fact of the matter is that, in many cases, our rates aren't high enough to cover our losses. That threatens our solvency . . . which in turn threatens the availability of our product.

Why are we in this dilemma? Because, despite the skyrocketing costs of home and auto repairs, health care and all the other services for which we're expected to pay, we're prohibited in most states from adjusting our rates to compensate for the ravages of inflation.

I can't present our case fully in one short ad, of course. But I can promise this: Harleysville will squarely confront the issues facing our industry.

Bradford W. Mitchell

Bradford W. Mitchell
President



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Harleysville Insurance Companies are full-line insurers specializing in business, personal and life insurance coverages tailored to your specific needs.

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Why Not a Tax Cut for Everybody?

Sen. Russell Long (D-La.) and Rep. Al Ullman (D-Oregon) have embarked on the second great American taxpayer rip-off of this century. The first was the graduated income tax.

These members of Congress want a federal sales tax, called a value-added tax, to be added to the cost of all consumer goods. They claim that they will propose offsetting tax cuts, but why the new tax?

Simple, the value-added tax would become a part of the cost of the goods and thus not identifiable as a tax by the consumer.

Now, isn't that an insult to us taxpayers? They want to tax us, but hide the tax.

The question to Sen. Long and Rep. Ullman should be: "Why not a tax cut for all Americans?"

ALVIN C. SMITH
Brookhaven, Miss.

The ten percent solution

Chances for a tax cut in 1979 look bleak. I don't think that the presidential and congressional races will improve chances this year.

The constant upward spiral of wages and prices over the past 30 years has pushed more and more average American citizens into higher and higher income tax brackets. This has given the government a larger and larger percentage of our income.

Perhaps the answer is to choose a date after which everything will be cut to only ten percent of its former price or wage. Then, an \$8,000 automobile would sell for \$800; a \$2,000 monthly salary would be \$200; and \$1-a-gallon gasoline would cost ten cents.

The best part is that most average workers would not need to pay income taxes at all. The cut would raise their standards of living and give them more buying power.

MARVIN E. RICHARDSON
Mississippi Time Instruments
Jackson, Miss.

Too big a risk

John Cosgrove's article, "Insurance: New Wrinkles Broaden Business Coverage" [Nov.], was excellent. However, I disagree with the concept of an agent

or broker performing many of the functions of a risk manager.

Having an agent or broker act in any capacity as a risk manager is tantamount to presenting Willie Sutton with the keys to the vault. If a corporation feels the need to have an agent or broker act as its risk manager, it needs a new risk manager.

ARTHUR H. SEITTER
Risk Manager
American District Telegraph Co.
New York, N.Y.

Risk retention

In essence, the article, "A Superfluous Federal Solution" [Nov.], attacks the Product Liability Risk Retention Act proposed by the Commerce Department.

The National Association of Wholesaler-Distributors believes that businesses should be permitted the option of forming risk retention groups to purchase product liability insurance from the major insurance underwriters.

The article mentions opponents of the risk retention proposal, but omits any reference to business groups that support the risk retention concept.

The U. S. Chamber of Commerce, to which my association belongs, has a policy development committee that is now studying the provisions of the act for the purpose of making a recommendation to the governing body of the Chamber.

WILLIAM C. McCAMANT
Vice Chairman of the Board
National Association of Wholesaler-Distributors
Washington, D.C.

Support for act

The Product Liability Risk Retention Act, or at least some federal action to facilitate the formation of product liability self-insurance groups, has been supported by the National Association of Manufacturers, the National Machine Tool Builders Association, the Risk and Insurance Management Society, the National Federation of Independent Business, the Sporting Goods Manufacturers Association, the Bicycle Manufacturers Association of America, the Machinery

and Allied Products Institute, the National Association of Wholesaler-Distributors, and numerous other business groups.

The reason for this broad support is a belief that existing commercial product liability insurance mechanisms have been inadequate to meet the past, present, and future needs of broad segments of the business community.

The act addresses one of the principal causes of the product liability problem: Overly subjective insurance rate-making practices. Moreover, it accomplishes this goal without placing any additional regulatory burdens on commercial insurers. It relies on a market, rather than a regulatory, solution to the problem.

The availability of a competitive alternative will assure all groups affected by product liability that rates and premiums reflect the best possible assessment of actual product risk.

VICTOR E. SCHWARTZ
Chairman, Task Force on Product Liability and Accident Compensation
Commerce Department
Washington, D.C.

Convert to coal

I have been a subscriber to NATION'S BUSINESS for a couple of years and have really enjoyed it, particularly the Letters to the Editor. This department gives readers a chance to get their thoughts before a considerable number of people.

Of course, I have written letters to our representatives in the Senate and the House and always get a prompt, courteous, cordial, and grateful reply, but nothing more.

It is ridiculous, even pathetic, that a nation as blessed as this one with its natural resources should have to knuckle under to a few Arab pirates to purchase crude oil. Some say that the giant oil companies are holding back the finished product, thereby creating the shortage of gasoline and heating oil. This may be true. I don't know. Even if it is, the oil companies cannot continue to hoard gasoline and other petroleum products. If they force the price of gasoline prohibitively high, then more people will walk, carpool

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Argentina TODAY

A MONTHLY COMMENTARY ON DEVELOPMENTS #4

Facts about Education in Argentina

Argentine education has reached a prominent place within Latin America and the world. Responsibility in educational matters is shared by the national government, the provincial governments, the Municipality of the City of Buenos Aires, and the private sector; the latter usually manages the schools supervised by government agencies. Of course, there are also autonomous institutions.

The educational system covers all levels: pre-elementary, elementary, secondary and higher education and is tuition-free in all state schools and institutions.

Pre-elementary education is provided to children under the age of 6 with up to two-years duration. It is not mandatory and its purpose is to foster the child's development of skills and habits of conduct. The number of pre-elementary courses has increased tremendously during the last 15 years.

Elementary education has 7-years duration. This level of education received its greatest impetus with the enactment of Law 1420, in the year 1884, making it mandatory throughout the country for all children between the ages of 6 and 14. A token of its development is the increase of enrollment: in 1895, the census recorded that 20% of the population of school age was enrolled; in 1970 that figure was 90%.

Secondary education includes the equivalent of high schools, commercial high schools, technical schools, agricultural schools and art schools, with duration of 5 or 6 years. Graduates may continue higher studies. Presently this level of education is rapidly expanding. The ratio between the enrollment and the total population in the 13 to 18 years age bracket was 3% in 1914 versus 37% in 1980. There is still a predominance of traditional studies in high school, but technical studies are increasingly more significant (i.e., from 3% of total secondary enrollment in 1900, to 28% in 1970).

Higher Education

High education is the third level of the educational system, including universities and non-university institutes for those seeking degrees as teachers of: pre-elementary, elementary, secondary and special education. Enrollment at this level reached 619,950 students in 1977. Argentina has 26 national universities, 3 provincial universities, and 24 private universities licensed by the government.

The Results

Argentine universities have a long history. From their classes have emerged figures of great international prestige such as: Nobel Prize winners' Dr. Carlos Saavedra Lamas (Peace), Dr. Bernardo Houssay (Medicine) and Dr. Luis Federico Leloir (Chemistry); Scientists such as Luis Agote, Enrique and Ricardo Finochieto, Gustavo Poch, Jose Yoel, Eduardo Lanari, Pedro Cossio, Renee Favaloro and Domingo Liota; Jurists such as Luis Maria Drago and Sebastian Soler; Writers of the stature of Jorge Luis Borges, Angel Batistessa, Victoria Ocampo, Adolfo Bioy Casares, Leonardo Castellano, etc.

The professional development of the educational process in Argentina has allowed a minimum of illiteracy; one of the world's lowest! The current rate is only 7.4% and Argentine authorities are intensifying their programs to make it even lower.

This monthly column of information reports on developments in the Argentine Republic, and is sponsored by the Ministry of Foreign Affairs & Worship, San Martin Plaza, Buenos Aires, Argentina.

Readers' inquiries are welcome.

with others, take fewer trips, and use less gasoline. The sale of the finished product is the name of the game, and a company cannot stay in business with gasoline that is not sold.

On the other hand, if we are really dependent on imports from the Arab oil producers, we should scrap the Environmental Protection Agency and go back to coal, of which we have an abundant supply.

I realize that conversion to coal for our electric power plants and other manufacturers that now use crude oil products would be an expensive process. But would it be any more expensive than the rip-off that is happening to us now?

LIONEL M. DURBIN
Meridian, Miss.

Three questions

The column by James J. Kilpatrick ("Unchained Bureaucracy Gone Berserk," Nov.) raises several important questions:

1. Can Congress legally convey to the executive branch the right to conjure rules and regulations that in effect become law that Congress has never seen?
2. Why isn't Congress required to see, study, and limit the rules and regulations before passing a law?
3. After enacting a law, why isn't Congress required to approve and limit the specific rules and regulations implementing that law?

The argument that Congress cannot possibly read all rules and regulations does not hold water. A billion-dollar Congress with high salaries, large staffs, and huge expenses certainly is better equipped than the average citizen, who is required by law to know and obey all federal, state, and local laws, rules, and regulations.

CURT SEIFART
Charlotte, N.C.

Not the way to go

Shame on Mr. Kilpatrick. ("ERA: Losing Battles, But Winning the War," Oct.) He says that the current laws are at the mercy of conflicting state laws and inconsistent court decisions. He shows that this has been the case for more than 100 years.

And then he expects us to believe that this "slow, selective process" is the way to go. Sorry, that just doesn't add up.

KAY W. COLE
*Scientific Communications Inc.
Garland, Texas*

The Quadrennial Lunacy

SO IT BEGINS, the Year of Quadrennial Lunacy. Before it ends, the presidential candidates will have traveled a million miles, shaken a million hands, and spent a hundred million dollars. They will have exhausted themselves, the press, and the country. We will have chosen not only a president and vice president but also several battalions of other officials—34 senators, 435 members of the House, 13 governors, 5,900 members of state legislatures, and whole armies of local sheriffs, commissioners, supervisors, port wardens, and aldermen. The Ringling Brothers had it wrong. It is not the circus, it is the American election process that provides the greatest show on earth.

Elections in Europe exhibit some of the same pandemonium, but on a much smaller scale. Our British cousins demonstrate those characteristics of order and economy for which they are justly acclaimed: They wrap things up in only three weeks. The stolid Russians have no fun at all. It is only in America that the frontrunner for the Republican nomination, asked if he touches up his aging locks with Grecian Formula, invites a reporter to feel for himself. Hallelujah! We are off again.

THIS SUMMER will mark my own fourteenth and fifteenth national conventions. Except for the Republicans' pat-a-cake party at San Francisco in 1956, I have covered all of these spectacles since 1952. This is no record, of course. Many of my colleagues in the press corps have watched delegates in delirium since the days of FDR, and one or two graybeards who survived 103 roll calls at Madison Square Garden in 1924 are still around. But 13 presidential campaigns are enough to provide a nice perspective on the Republican and Democratic campaigns of 1980. Am I jaded, or bored, or blasé? Hah! I can scarcely wait for the bell that summons us all to New Hampshire.

My first convention took me to Chicago in the summer of 1952 when the forces of Gen. Eisenhower vanquished the troops of Sen. Taft. Here was a nice lesson in the injustice of it all. Robert Alphonso Taft—how we loved that middle name—was then 63; he had served in the Senate from Ohio since 1938; he was qualified by every criterion of party loyalty and political experience. It was Sen. Taft's turn. After seven years of Harry Truman, the Republicans could taste victory that November. If life were fair, Sen. Taft would have won on the first ballot. But whoever said life is fair? In a superb stroke of semantic strategy, the general's lieutenants came up with the Fair Play Amendment to the rules of

the credentials committee. The contending armies met upon a battleground of delegates from Louisiana, Texas, and Georgia. When the dust of the stockyards settled, Sen. Taft's defeated forces bore their bloodied candidate from the hall. Ike won on the first ballot when Minnesota switched 19 votes from Harold Stassen. Sen. Taft died the following year. Some of us noted the cause of death—a broken heart.

The Democrats also met in Chicago in 1952. It was great. In the lobby of the Conrad Hilton Hotel, supporters of Bob Kerr had erected a log cabin. If memory serves, they had also erected an Indian teepee. Nearby were some swings and rings on which a troop of acrobats demonstrated their zeal for the



burly Oklahoman. Mr. Kerr was never seriously in contention, of course, but he put on the best show.

In those days, as editor of the *Richmond News Leader*, my chief concern rested with my fellow Southerners. This was the time of the Dixiecrat rebellion. The whole of the late Confederacy—or at least the white faction thereof—had taken to arms over Mr. Truman's civil rights program. Four years earlier, many of the Southern delegates had gone over the hill to Strom Thurmond. One question dominated our trip to the Windy City: Would the South be read out of the party?

ON THE NIGHT of the fateful showdown, I dined with Virginia's former governor, Bill Tuck, then in his prime. Gov. Tuck was built along the general lines of a barrel of bourbon. He had a full heart and a hollow leg. Riding in a taxi out to the stockyards, he enchanted me and the driver by de-

livering the speech he intended to make if the opportunity came that night. Not since Lee said farewell to his troops had the art of Southern oratory reached a peak so magnificent. The cab slowed to a crawl as Gov. Tuck reached his sorrowful peroration. "Goodbye," he cried to startled pedestrians on the sidewalk, "goodbye!"

As it turned out, the cab driver and I were the only ones ever to hear the greatest Southern oration since Lee. When the climactic moment came on the floor, Gov. Tuck was hors de combat. Fortunately for the Democratic Party, Virginia Gov. John Battle reached the rostrum instead. Gov. Battle's brief but masterful address, combining Southern conviction with political conciliation, overwhelmed the convention. The rebellious Confederates were welcomed back into the party of their fathers, and we all went out and had another drink. The convention nominated Adlai Stevenson. In November, Virginia went for Ike by 80,000 votes.

FOUR YEARS LATER, we were back in Chicago for the Democratic convention of 1956. After the gaudy shenanigans of 1952, it was a tame affair. Harry Truman turned up to receive a mild ovation—the Southerners were still sitting on their hands—and remained to denounce Adlai Stevenson as a defeatist. Eleanor Roosevelt also was there; she had a voice that quivered upon the F-sharp above a high F-sharp, and it went through my skull like a gimlet. The only excitement came when Estes Kefauver of Tennessee, he of the coonskin cap, beat out young Jack Kennedy for the vice-presidential nomination. It was the first and the last time, if I am not mistaken, that a presidential nominee ever has let a convention freely choose his running mate.

We saw a great deal more of Kennedy in the campaign of 1960. There was a man who could charm the birds right out of the trees. He was not much of a President—the thousand days of Camelot left remarkably few achievements behind—but few candidates ever have exhibited such grace under pressure. The night that he rode in an open car around the Los Angeles Coliseum, packed with 80,000 spectators, was a night to remember. It was the night he called for the New Frontier.

WE HAD an equally emotional moment of a very different sort on the night four years later when Sen. Barry Goldwater accepted the Republican nomination at San Francisco. It had been a bitter, divisive convention, marred by the infamous Scranton Letter. This was a vicious attack upon Sen. Goldwater from the former Governor of Pennsylvania, William W. Scranton. Sen. Goldwater looked upon his own delegates, said Gov. Scranton, as "little more than a flock of chickens whose necks will be wrung at will." Sen. Goldwater's philosophy was "a crazy quilt collection of absurd and dangerous positions." The letter, which Gov. Scranton incredibly said had been composed with his permission but without his knowledge, fueled the emotionalism that greeted Sen. Goldwater's memo-

ral reminder: "I would remind you that extremism in the defense of liberty is no vice; and let me remind you also that moderation in the pursuit of justice is no virtue." The hall exploded in wild cheers and jeers. And Sen. Goldwater, one of the most honest men I ever knew in public life, went on to lose to Lyndon Johnson by 16 million votes.

The years and the memories blur. In the campaign of 1968 I covered Hubert Humphrey for a while and developed an affection for that great American that no philosophical differences could ever diminish. I covered Eugene McCarthy in that same campaign; we passed an unforgettable rainy evening in the Military Park Hotel in Newark, N. J., sipping Jack Daniel's and quoting the sonnets of William Butler Yeats, while the discomfited pols of the McCarthy campaign cooled their heels outside.

In Indiana, I wound up on the campaign plane of Robert Kennedy. I had never met the former Attorney General, but I had written a number of unkind things about him. It seemed a good idea to introduce myself and make my manners. "I'm Jack Kilpatrick of *The Washington Star*," I said. "I know," said Brother Bobby. I never looked into a pair of colder eyes. I was reminded of that splendid line from P. G. Wodehouse, describing the presumptuous entrance of an uninvited guest at a manorial banquet: "Ice began to form on the slopes of the butler's forehead."

TO LOOK BACK is to remember the wild violence of Chicago in 1968, when the hippies taunted the Chicago cops by throwing excrement in their faces. I remember Ed Muskie in Wilkes-Barre, Pa., his voice hoarse with fatigue. And a breakfast once with George McGovern, a gentle man never bred for the gut-straining infighting of the campaign trail. Richard Nixon in Washington State, off-loading the apple pies pressed constantly upon him. . . . Jimmy Carter in New Hampshire . . . Scoop Jackson, Mo Udall, the irrepressible George Wallace . . . Eheu! I am the most fortunate of men.

I love the lunacy. It was a sad day when party managers came down with a bad case of decorum and banned the staged demonstrations. Things were a lot more fun when delegates snake-danced around a smoky hall, jiggling their state standards, waving straw hats against a rain of confetti. Bands and spotlights and an incessant surf of sound—and to bed bone-tired.

ABSTRACTLY, I am for campaign reform. It would doubtless be more sensible to hold five or six regional primaries two weeks apart from April through June. Our presidential campaigns cost far too much. They demand of the candidates the stamina of an ox and the legs of a long-distance runner; the ultimate test goes not to a candidate's ideas, but to his digestive tract instead. For the newsman assigned full time to the trail, the days pass in a fog of fatuous blather. It is a crazy way of electing a leader of the greatest land on earth. But would I change it? Not on your life. □



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OUTLOOK

THE ECONOMY

Budget Projections Way Off, Says Analyst

The administration's long-term budget projections are unrealistically optimistic, according to Rudolph G. Penner, director of tax policy studies at the American Enterprise Institute.

He challenges the assumptions underlying estimates for fiscal 1984 compiled by the Office of Management and Budget last summer. OMB expects 1984 federal spending of \$774.7 billion and revenues of \$856.9 billion, for a surplus of \$82.1 billion.

The OMB projections, says Mr. Penner, assume that federal income will rise to 23 percent of the gross national product in 1984 because of various tax increases.

But, he notes, Congress has generally offset such increases, and in the past

20 years the ratio of receipts to GNP has never exceeded the 20.8 percent attained in fiscal 1969 from the temporary Vietnam war surtax.

If the ratio of receipts to GNP were held at the 1978 level of 19.5 percent, he says, there would be a deficit of \$48 billion for 1984 rather than a surplus. A general tax increase of close to seven percent would be required merely to bring the budget into balance, assuming the Office of Management and Budget's projection for outlays is correct.

But Mr. Penner doesn't accept that estimate either. "It allows for no increases... other than those implied by current law and programs that have already been announced."

"The available options are not very desirable," he concludes. "In the absence of tax increases, either the economy has to tolerate large deficits or the government has to make drastic cuts in the rate of growth of spending programs," especially entitlement programs such as social security.

Whose Crystal Ball Is the Clearest of All?

How did the major macroeconomic forecasters perform in the 1970s? The most accurate predictions of the money supply came from Chase Econometric Associates, Inc. For short-term interest rates, the winner was Data Resources, Inc.

These are among the findings of economist Stephen K. McNees, a vice president of the Federal Reserve Bank of Boston. Writing in the *New England Economic Review*, Mr. McNees rates the accuracy of five forecasters on 17 variables from mid-1970 to mid-1979. The other three forecasters are the MAP-CAST group at the General Electric Co., Wharton Econometric Forecasting Associates, Inc., and the median forecast from a survey conducted by the American Statistical Association and the National Bureau of Economic Research.

The author says the forecasts of real growth, inflation, and unemployment for the period from mid-1974 to mid-

1975 were generally wrong, while inflation forecasts for mid-1975 through mid-1978 were quite accurate.

"Forecast evaluation," he says, "must be relative rather than absolute because no reasonable absolute standard exists." He found "small differences in the errors among forecasters for most variables."

Mr. McNees concludes that "better forecasts could have been made if the forecasters had paid greater attention to the statistical properties of the economic variables to be forecast."

CORPORATIONS

Disability Costs Imperil Pension Plans

Dramatic increases in disability costs are endangering many of the nation's pension plans, both public and private, says the American Council of Life Insurance.

The trouble developed because public and private plans often combine disability and pension obligations in calculating the cost of future benefits. As a result, the council warns, "when today's workers retire, their pension plans could already be seriously drained by obligations to disability claimants."

An extreme example of this problem is found in the Longshoremen's and Harbor Workers' Compensation Act, says the Alliance of American Insurers, which is asking Congress for corrective changes. Because payments provided under the act are indexed to inflation and exempt from income taxes, says the group's vice president, Andre Maisonneuve, "many individuals receive benefits far exceeding take-home pay, which has had the effect of unnecessarily prolonging disabilities."

Social security disability benefit payments surpassed \$12.6 billion in 1978, an increase of 306 percent since 1970. Disability benefits from all sources totaled \$38 billion in 1978 and went to 11 million people, according to the Health Insurance Association of America.



President Carter's budget for fiscal 1981, due this month, may be based on unrealistic projections, says one analyst.

Hiring New Workers Can Be Cheaper

Scheduling overtime is generally thought to be cheaper than hiring new workers with all the fringe benefit costs.

But if workers don't want the extra hours, the move can backfire, writes Robert W. Hollmann in *Human Resource Management*, published by the University of Michigan Graduate School of Business Administration.

"A manager should not ignore other personal needs of workers in making overtime decisions," Prof. Hollmann says. "If imprudent overtime decisions and assignments are made, the savings may be considerably less than anticipated."

"Or even worse, the unwise overtime decision may be reflected in less output, poor quality, increased waste and even damage, and deteriorating morale—the combination resulting in overall costs greater than if the organization had hired new workers."

SMALL BUSINESS

AID Offers More Procurement Contracts

The Agency for International Development wants to award more procurement contracts to small and minority firms.

Raymond C. Malley, director of the Small and Disadvantaged Business Office, says AID is setting aside more of its direct participation and host country procurement contracts.

Under the direct participation concept, a small firm contracts directly with AID for work in the social policy fields, including research and feasibility studies on agriculture and rural development, demography, population control, health, and education. With a host country contract, AID gives a foreign government procurement dollars, and that government subcontracts the work back to U.S. firms.

Mr. Malley says that because of the new minority set-aside law and the executive order signed by President Carter last May establishing a women's enterprise policy, more contracts will be awarded to female-owned and minority firms. Presently, small business controls about 20 percent of the direct procurement, with five percent going

to minority and female-owned firms. About 20 percent of the host countries' procurement also goes to small business, but only one to two percent of the contracts are awarded to minority and female-owned firms.

Carter Pushes Two-Tier Regulatory Efforts

The Carter administration has issued a memorandum asking federal agencies to be flexible in administering government regulations.

Regulatory flexibility, or a two-tier regulation policy, has been requested by small business groups for some time. Washington sources believe the administration's move was prompted by pressure from Congress and small business lobbyists, coupled with a desire to take some positive action prior to the White House Conference on Small Business this month.

"Regulatory programs are important to the safety and health of the nation," the President said in announcing his decision. "Their goals, however, can sometimes be achieved in ways that minimize the burden on small businesses."

The presidential action asks the executive departments and agencies to ensure that new rules and regulations are administered in a flexible manner, taking into account the size and nature of the regulated business, and to adopt flexible alternatives and plans for implementing existing rules and regulations.

The President's memorandum does not affect the independent regulatory agencies. However, he did ask these agencies to participate in the effort.

Legislation mandating a two-tier policy for all regulatory agencies is expected to be reintroduced in Congress this session.

AGRICULTURE

Farm Equipment Sales Expected to Drop

Due to the rising cost of labor and materials used in production, the cost of farm equipment is expected to increase an average of ten percent this year.

The demand for farm machinery, however, will depend on several factors: Farmers' net income, costs during

the planting season, and available credit.

According to the Agriculture Department, "demand for farm machinery is expected to remain at current levels into the first half of 1980. However, as farmers are affected by increasing costs and tightening short-term credit, machinery purchases are likely to be postponed."

"If net farm incomes decline as expected, due to the rapid increase in costs and the modest rise in commodity prices, farm equipment sales could drop significantly in the second half of 1980," the department says.



Farm equipment sales could drop sharply in the second half of 1980 because of an expected decline in farm net income.

INTERNATIONAL

Inflation Up, Growth Down, Says Bank Report

The world economy in the 1980s will be plagued by accelerating inflation and reduced growth, says the Bank of America's global report.

The bank forecasts that world economic growth will slow to three percent in 1980, while worldwide inflation remains in the double-digit range.

OPEC's decision to double the price of crude petroleum is given as the primary source of anticipated global difficulties. Increased oil prices also will contribute to sharply reduced world trade, with export growth falling from the expected 1979 level of three percent to little more than one percent in 1980.

The bank also forecasts that non-OPEC developing nations will be hardest hit in the global economic slowdown.

The report foresees several factors exerting downward pressure on the U.S. dollar in 1980: U.S. growth and imports will pick up again; U.S. infla-

OUTLOOK

tion will remain high while inflation in major competitor countries will decrease; and U.S. short-term interest rates are likely to decline, while those in competitor countries will remain fairly stable.

Tax Problems Worsening for Overseas Operations

The tax climate for companies operating abroad is changing significantly, according to an informal survey conducted by the accounting firm of Peat, Marwick, Mitchell & Co.

A majority of respondents agreed that the amount of tax paid to foreign governments is increasing. Also, using these foreign taxes as a credit against U.S. tax on the company's foreign income is becoming more difficult. Half of the respondents said that foreign tax authorities were auditing their overseas operations more effectively and with greater sophistication. Just a few years ago, such audits were rare.

To avoid double taxation, companies are turning to the Internal Revenue Service for help. Under tax treaties between the United States and other countries, the IRS can act as a mediator to resolve tax issues.

GOVERNMENT

Model Product Liability Law Offered to States

The Commerce Department has developed a model uniform product liability law which, if adopted by the states, would help stabilize product liability insurance premiums and clarify the relationship between product liability and workers' compensation.

Under the model law, most products would have a useful safe life of ten years, unless the product carried a lifetime guarantee. A product would be considered defective if it were proven unreasonably unsafe in construction, design, and lack of warnings or instructions, or if it failed to conform to the manufacturer's warranty.

The law would not permit injured employees who collect workers' compensation to receive the full amount of

any court judgment awarded against the manufacturer of the product involved in their injury. The award would be reduced by the amount of workers' compensation received. The law also protects the employer from being sued by the manufacturer of the product.



The extent of a manufacturer's liability for potentially hazardous products is clarified in the Commerce Department's model uniform product liability law.

IRS Can Improve Responses, Says GAO

The General Accounting Office has suggested several ways for the Internal Revenue Service to improve its handling of taxpayers' inquiries.

The GAO report, prepared at the request of the Joint Commission on Taxation, showed that of 2,223 taxpayers, about 32 percent were either dissatisfied with the way the IRS answered their questions or thought they had to make too many calls and spend too much time resolving their problems.

"While GAO recognizes taxpayers may not always be right," the report says, "extensive taxpayer dissatisfaction could affect their compliance with the tax laws."

Among its suggestions to increase taxpayer satisfaction, the GAO recommends that IRS district offices become the focal points for processing complicated inquiries.

TRENDS

Two-Paycheck Families Are Now a Majority

Working wives have become the rule rather than the exception. The Bureau of Labor Statistics reports that three of every five husband-wife families have two wage earners.

The number of such families has increased by more than three million since 1970 to a record 28.4 million, the bureau says.

Bureau data also show that rising divorce rates have put women at the head of one of every seven families; 30.1 million children had mothers in the labor force, almost 20 percent more than in 1970; and 70.9 percent of single men and 62.7 percent of single women were working last year.

Buying Power of Hispanics Growing

Hispanic-Americans are the fastest-growing ethnic group in the United States, according to Kessler & Eisele, a Los Angeles-based advertising agency.

The firm gleaned these facts and figures from two years of research:

- The Hispanic population totals about 24 million people [Census Bureau experts estimate 15 million], and by 1982 it could exceed 30 million.
- Hispanics spend more than \$50 billion annually on consumer goods.
- Advertising is easy to pinpoint because 93 percent of the Hispanic population are concentrated in the top 30 urban markets.
- Hispanics' strong family orientation helps them resist cultural assimilation.
- Eighty-two percent of Spanish-surnamed Americans prefer to speak only Spanish, and 89 percent prefer to think in Spanish.

"Business advertisers shouldn't ignore the buying power of the Spanish-speaking market," says the firm's president, William Kessler.

More Companies Help Spouses in Transfers

Working spouses are becoming a factor that companies must deal with when transferring their employees.

A recent survey by Merrill Lynch Relocation Management, Inc., a corporate relocation service firm, finds nearly twice as many companies are offering job-finding assistance for transferred executives' working spouses. Of the companies surveyed, 30 percent now offer this help, compared to 16 percent in the 1978 survey.

Some other findings:

- The average number of women transferred per firm was five, or about three percent of total transferred employees.

- Forty-five percent of the surveyed firms said relocation is an employee option, and refusal to transfer brings no penalties. Another 20 percent said refusal is permissible, provided the reason is valid. Eight percent said a refusal could hinder the employee's advancement.

- An outside relocation firm or bank to purchase the employee's home is used by 45 percent of respondents, compared to 36 percent in the previous survey. Forty-three percent reported that their firms reimbursed the employee for some or all of the expense of selling his home. Other policies reported were company purchase of the employee's home, 15 percent, and no assistance or reimbursement, six percent.

American nationals," says Frank R. Beaudine, chairman and chief executive officer of the search firm. "Last year alone, foreign firms acquired about 200 operations in the United States. In their recruiting, many of these foreign firms are attracted to American executives who have previous experience in how business operates overseas."

According to the American Institute of Certified Public Accountants, 29 percent of last June's accounting graduates will find jobs in their field. That proportion will jump to 32 percent by 1983, while the overall number of accounting majors will continue to increase.

Going to a State College Costs Five Percent More

The National Association of State Universities and Land-Grant Colleges reports that median total charges for tuition, fees, room, and board for students at major U.S. public universities rose five percent over last year. That's less than the 9.3 percent rise in the consumer price index from July, 1978, to July, 1979.

Total charges this year for a state resident are \$2,333, compared with \$2,221 in 1978-79. For nonresidents, charges jumped to \$3,667 from \$3,451 in 1978-79. For tuition and fees only, state residents are paying a median charge of \$781, compared with \$724, a rise of 7.9 percent.

The higher charges were blamed on inflation, the necessity to maintain

program quality, pay raises for faculty and staff, the lack of alternative revenue sources, and inadequate appropriations from state legislatures.

Highest charges were found in New England, followed by institutions in the Middle Atlantic states, the Midwest, West, and Southeast. Medical students were hit with the biggest boost in tuition and fees—16.2 percent.

How to Say Pay Up in Ten Languages

How do you say "please may we have your payment" in Dutch? The answer to that and other communications problems facing the small exporter can be found in a recent publication from AMACOM, a division of American Management Associations.

The book, *Debt Collection Letters in Ten Languages*, was written by John Butterworth, director of the International Factors Group, which operates in 22 countries developing international trade. "I hope readers will find the book of real practical assistance in the vital job of maintaining and speeding up the cash proceeds of their export efforts," says Mr. Butterworth.

In addition to 20 sample letters and four telex messages, the book explains the framework of international trade credit, differences in terminology, and the practice and methods of payment in different countries.

The letters are written in Danish, Dutch, English, French, German, Italian, Norwegian, Portuguese, Spanish, and Swedish. □

PERSONAL

Foreign Firms Seek Overseas Experience

The job market for middle to upper-level managers will tighten up in the next decade, unless you happen to be in the microbiological, hydrothermal pollution, or mariculture research fields, or in accounting.

According to Eastman & Beaudine, Inc., Chicago, Ill., the demand for senior executives has diminished sharply. But one bright spot is the growing market for Americans with overseas experience to run U.S. operations of foreign companies.

"Foreign companies entering the United States have great need of



Sending the kids to state colleges may be a bargain. The cost rose only five percent last year while the consumer price index was climbing 9.3 percent.

MOTOROLA BROUGHT HOME

It's not for nothing that Jupiter is named for the mythological king of gods. It's the giant of the solar system, 1300 times the size of Earth. With over a dozen moons and a unique magnetosphere, it's almost a miniature solar system. It swarms with turbulent rivers of color that move at half the speed of sound.

ELECTRONIC LINK.

The flyby of Voyager 1 and 2 has given us the best look we've ever had of this fantastic world. And the only two-way communication link between the Voyager spacecraft and Earth is Motorola equipment; not only for transmitting the

incredible pictures, but for receiving all commands sent to the spacecraft, relaying all scientific and engineering data, and serving as the spacecraft terminal for all tracking and navigation functions. And it's all designed to operate for over a decade on a comparative trickle of power from radioactive isotopes.

ELECTRONIC HISTORY.

Motorola has over twenty years' experience in this esoteric technology, extending back to the earliest unmanned space probes. For example:

America's first venture into space, Explorer 1, in 1958, sent its information to ground-based

Motorola equipment.

Pioneer 5, in 1960, was tracked out to 22.5 million miles with specially-designed Motorola radio receivers.

Motorola's command receivers were on board Alan Shepard's Freedom 7 Mercury spacecraft for the first U.S. suborbital mission in 1961.

In 1965, Mariner 4 made a close flyby of Mars, snapping pictures all the way, and sent them to Earth by a Motorola transmitter.

For the Gemini series, in 1965-66, Motorola developed and produced the spacecraft's digital command system.

Neil Armstrong's historic "one small step for man" was



PICTURES OF THE GIANT.

relayed from Moon to Earth in 1969 by a Motorola S-band transceiver.

In 1971 the Lunar Rover, first car on the Moon, had a Motorola FM receiver.

The first color photographs from the surface of Mars, in 1976, came to Earth from the Viking orbiter via Motorola equipment.

IMAGINATIVE ELECTRONICS.

And now, the Voyager space-craft, pursuing their boomerang trajectories around Jupiter and on toward Saturn. A long way indeed from the time when Motorola put radios into cars fifty years ago, and TV sets in

America's living rooms. We no longer make home TV here at all, but we do make hundreds of models of two-way radios.

We have become one of the world's largest manufacturers devoted exclusively to electronics. We are one of the foremost designers of custom and standard semiconductors. Indeed we are one of the world's greatest innovators in electronic problem-solving.

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A microcomputer,
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help keep ships from colliding; systems that allow telephones without wires; systems that help keep computers from giving up their secrets to the wrong people—and, of course, systems that bring home to Earth the true face of other worlds.

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ERLMAN



THE FIVE O'CLOCK SWITCH

WORKING FOR THE GOLD



Would-be Olympians manage all-out training and full-time jobs in their quest for sport's highest honor

By Tony Velocci

STEPPING up to a massive steel and cast-iron weight, the man working out in the gym clinches the chrome bar in a vise-like grip and fills his lungs with air. Straining, he he-e-e-aves the barbell off its five-foot stanchion, rests it on the back of his shoulders, steps forward, and studies his form in a wall-length mirror. A grimace spreads across his face as he squats, s-l-o-w-i-y. Exhaling, he raises his muscular bulk back to a standing position and repeats the knee-wrenching exercise.

This is Al Oerter, 43, data processing manager at Grumman Data Systems Corp. and a near certainty for the U.S. Olympic team. At a stage in life when most American males are fighting middle-age bulge and just the thought of doing 50 push-ups seems impossible, Mr. Oerter is training for the 1980 Moscow Olympics. His specialty is the discus, and he hopes to win his fifth gold medal.

While Mr. Oerter's age and past Olympic performances set him apart from most amateur athletes, he typifies a highly-motivated group of older men and women who compete in world events while holding full-time jobs.

Olympians are often stereotyped as the very young—14 to 21 years old—but a sizable number is not so young. The average age of the men and women who are likely to make America's

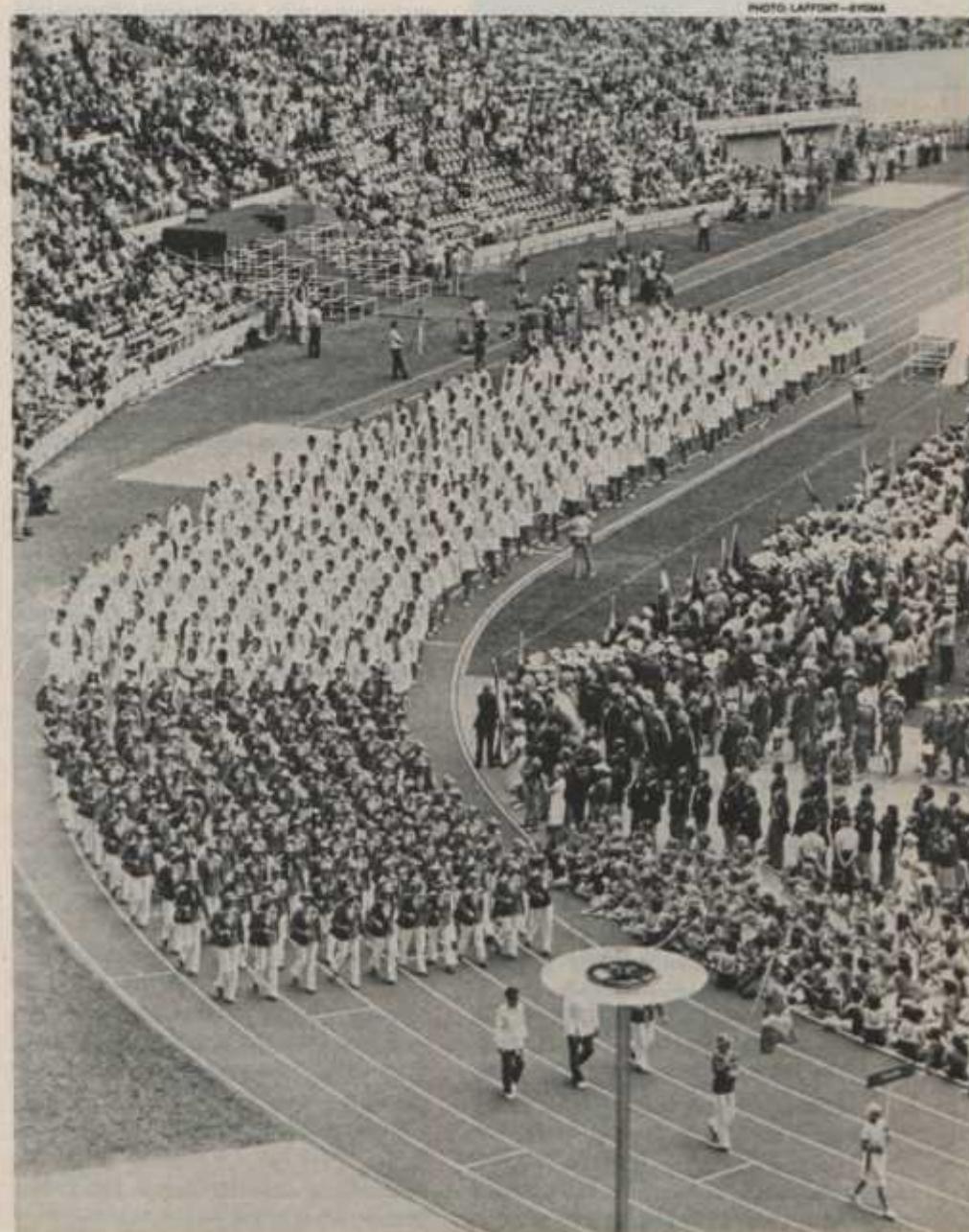


PHOTO: LAFFORT—SYGMA

Businessman Al Oerter, 43, a Grumman data processing manager, is striving for his fifth Olympic gold medal in the discus throw.

While the Olympic focus is usually on youth, many of America's top amateur athletes are 25 or older and pursuing full-time careers.



PHOTO: MARTIN'S PHOTOGRAPHICS

relax. Sacrifice and compromise are the rule, not the exception. Careers are important, but athletic training is paramount. Each athlete depends on the encouragement and understanding of others—employer, family, spouse, or parents.

Disciplined and dedicated

"I've been involved in amateur sports for a long time and have known many athletes, but the Olympic hopefuls who also hold full-time jobs are a special breed," says Robert Kane, former athletic director at Cornell University and now president of the U.S. Olympic Committee. "They are among the most disciplined, dedicated people in the whole world, dogged in their determination."

What motivates them? The reasons are varied.

Harry C. Melges, 49, an expert yachtsman who has been sailing since he was six years old, has a "lust for competition." The president of his own companies, Melges Sails, Inc., and Melges Boat Works, Inc., in Zenda, Wis., he has won the Star class world championship for the past two years racing a two-man keel boat and received a gold medal in the 1972 Munich Olympics.

"The thrill of international competition is unique," he says. "In a world championship race, I may be among six other U.S. entries. But in the Olympics, it's just me and my crew against the best that other countries have to offer."

For Bernard Taylor, 22, of Charlotte, N.C., the thrill will come from winning for the United States. A cameraman for television station WSOC-TV, Mr. Taylor boxes in the 125-pound featherweight class. He is a four-time Golden Gloves champion, four-time Amateur Athletic Union champion, and the gold medal winner in last summer's Pan American Games in Puerto Rico, a tune-up for the 1980 Olympics.

"Being the first person to represent Charlotte in the Olympics means everything to me," says Mr. Taylor, who had 158 fights before losing. His record: 440 wins, eight losses.

Exhilaration of training

Some of America's Olympic hopefuls share another kind of motivation—the need to expend raw physical energy. For them, just the rigors of training produce a mental and physical exhilaration. Perhaps no athlete better reflects this driving force than Mr. Oerter.

"It is the effort that leads me up to the Olympic Games that is by far more important to me, not the winning of any medal or the placement on any team," he says.

Mr. Oerter, who lives in East Islip, N.Y., won his first gold medal for the discus throw in the 1956 Olympic Games in Melbourne, Australia. He repeated the feat in Rome in 1960; Tokyo, 1964; and Mexico City, 1968. To win the gold next summer in Moscow, he will have to hurl the two-kilo (4.4 lb.) wood and metal discus at least 228 feet.

"I have absolutely no idea whether I will even make it to the Olympics this year," he says. (Virtually everyone else considers that a forgone conclusion.) "But the pursuit of the goal provides

The better that champion rider Denny Emerson does in competition, the more people want to enroll for lessons.

1980 Olympic teams is 25.3. "This means the games are for men and women—not boys and girls," says C. Robert Paul, director of communications for the U.S. Olympic Committee.

Skill and experience

The more mature athletes compete in events like horseback riding, fencing, and yachting that are often overshadowed by the more popular sports. Moreover, older athletes dominate those sports in which skill and experience, not speed and agility, are the prime requisites. No matter. The rewards for first, second, and third place are still the same—the coveted gold, silver, and bronze medals.

The XIII Olympic Winter Games will open on Feb. 12 at Lake Placid, a picture-postcard village deep in New York State's Adirondack Mountains, and will run through Feb. 24. Five months later on July 19, the XXII Olympiad will get under way in Moscow and continue through Aug. 3.

Many of the athletes vying for a spot on an Olympic team—selection for the winter games will continue until Feb. 10—share the same career interests as millions of Americans—medicine, law, teaching, business, and the technical trades.

For the working athlete, intense training begins at least a full year before the games. There is little time to

An Athlete by Any Other Name

Besides ability, what qualifies an athlete to compete in the Olympic Games? The key criterion is that the men and women be amateurs. Only now the International Olympic Committee has expanded the requirements for eligibility.

Several years ago, the IOC recast its rules and concluded that athletes could lose their eligibility if they competed in their sport for money or as a professional in any kind of sport.

The decision to eliminate the word amateur was intended to resolve two sore points among competing nations, according to C. Robert Paul, director of communications for the U.S. Olympic Committee.

"The system of awarding athletic scholarships in the United States had long been a bone of contention throughout the world. Second, socialist countries such as the Soviet Union had their own controversial systems of providing athletes with jobs and other support."

Today, certain Olympians such as marathoner Frank Shorter and discus thrower Al Oerter appear in print and broadcast commercials endorsing various products.

The international sports governing body permits American Olympians to do endorsements, but only if the commercials are unrelated to sports, and the fees are handed over to the national federations that govern their sports.

me with 99 percent of the satisfaction, regardless of the outcome.

"My job is very cerebral, and I can't survive on that kind of activity alone. My need to compete is strictly internal. By working hard toward physical goals, everything else in my life falls into place."

How Olympic hopefuls manage to work at all is extraordinary, given the hours of weekly training required to remain competitive.

Reading the paper

When most working people are sipping coffee and reading the morning newspaper before departing for the office, would-be Olympians are running. Or lifting weights. Or swimming laps. Or whatever their training entails. For many, a similar routine is repeated during late afternoons and early evenings.

The only way working athletes can cope is with an understanding employer. Mr. Oerter, for example, has been training twice a day, six, sometimes seven days a week, during the past year while working for Grumman Data Systems, a subsidiary of Grumman Corp., Bethpage, N.Y.

He begins each day at 7 a.m. on an ergometer, or stationary cycle. The only exception is when he sees a physician to make sure he is not overdoing his training and risking injury. After a 45-minute workout, he eats a hearty breakfast—yogurt, bran, partially cooked eggs, and a homemade health tonic.

Then it's off to work. He's at the office from about 9 to 3:30 p.m. Midday, he consumes a large salad, sandwich, usually cheese, and a quart of orange juice. A second quart is spaced through the day.

More hours of training

Around 4 p.m., he starts throwing the discus and lifting weights—he squats 560 pounds—until 6:30. With his two daughters away at college, he cooks for himself. The menu usually includes fresh vegetables, fish or poultry, and rice or baked potato. Mr. Oerter, who is six foot, four inches tall and weighs 275 pounds, considers eight hours of sleep a must.

Weyman B. Jones, vice president of public affairs for Grumman Corp., says: "Mr. Oerter is a source of tremendous pride for Grumman. We believe this pride carries over into employee attitudes and contributes toward an esprit de corps."

"We have an established practice of

cooperating with Grumman employees who are involved in worthwhile pursuits. In our own way, we try to make it a little easier for them."

A similar attitude is expressed by Freeman Jones, vice president of Cox Broadcasting Corp. and general manager of the Charlotte television station where boxer Bernard Taylor works in the news department. Mr. Taylor manages to train outside his eight-to-five work schedule, but like other Olympic hopefuls, he frequently needs to take time off to compete in tournaments, both here and abroad. Says Mr. Jones: "Our willingness to allow him the time he needs is our contribution to the Olympics."

Martin W. Liquori, a 30-year-old middle-distance runner and Olympic hopeful, is co-owner of Athletic Attic, Inc., a nationwide chain of 180 sporting goods stores which will gross about \$60 million this year.

He was a member of the 1968 U.S. Olympic team in Mexico City, where he became the youngest ever to make the finals of the 1,500-meter race. At various times since then he has been ranked number one in the world in the mile, 1,500 meters, and 5,000 meters, his specialty.

Totally selfish

"I decided when I was about 15 years old that I wanted to be the best runner in the world," he says. "To achieve my goal I decided to begin by breaking the four-minute mile before I graduated from high school.

"To be the best in the world, you have to be totally selfish. Nothing can interfere with your total training." Mr. Liquori adheres to this maxim. He began working out daily last September to prepare for the July races.

John Hencken, 25, a swimmer and a product development engineer for Litronix, Inc., an optoelectronics firm in the San Francisco area, estimates that he will soon require at least five hours of training a day. "So far my company has been great about my training needs," he says. "The firm has encouraged me to plan my own schedule as long as I get my work done on time."

Mr. Hencken won bronze and gold medals in the breaststroke in the 1972 Munich Olympics. In 1976, he won the silver in the 200-meter race and a gold in the 100-meter and 400-meter medley relay races. He and three teammates hold the world record in the 400-meter medley relay.

Stephen B. Lieberman, an attorney in Reading, Pa., has given a whole new



A demanding schedule rarely prevents Olympic speed skater Dr. Michael Woods from training, even while interning.

meaning to on-the-job training. He has set up an archery range on the second floor of his office.

"The target is much smaller to compensate for the relatively short distance of 20 yards," he says. "But the same amount of concentration and muscle tone is required."

Mr. Lieberman, 27, was a member of three world championship teams. In 1973, he was third in the world target championship; the United States was first overall.

Odd hours

A willingness to work odd hours is how some athletes manage a regular training routine. Jesse Goldstein of Toms River, N.J., a second-degree black belt in judo, trains a minimum of 35 hours a week. Fortunately, he is in charge of store outlets for a wholesale egg distributorship owned and operated by his family, which enables him to juggle his hours.

A silver medalist at the 1979 Pan American games, Mr. Goldstein reports to work at 7:30 a.m. and finishes around 1 p.m. For the remainder of the afternoon, he bicycles up to 12 miles, followed by three hours of weightlifting and training at a judo studio. He returns to the office at night to prepare for the following day.

Once a person makes the commitment to become a top-ranked athlete,

he or she must be prepared to accept personal, professional, and financial sacrifices.

Nikki Franke of Philadelphia is a case in point. In addition to training for the Olympic fencing team, she also teaches health education at Temple University, coaches a collegiate fencing team, and is studying for her doctoral degree.

"Without my husband's support, I couldn't keep this kind of schedule," she says. "I've seen a lot of marriages break up, because it's difficult for any dedicated athlete to maintain a home life. If you don't have the backing of your mate, then you must make hard choices."

A typical day for Mrs. Franke might go something like this: Arrive at the office between 9 and 9:30 a.m. and tend

to administrative duties before classes. Grab a quick lunch and then meet with students to discuss lessons. Coach the university's fencing team in practice from 3:30 to 6 p.m. and follow up with personal practice until 9 p.m. or later.

Dinner is usually late. Whoever gets home first, cooks, and that is often husband Norman. Mr. Franke, a field technician for Xerox Corp., learned early what living with a potential Olympian would be like: His wife won her first national championship on their honeymoon.

"In the beginning it was difficult for me to adjust," he says, "but the whole experience has been exciting, seeing Nikki grow in the sport and become a national figure in women's fencing."

After athletes are selected for an

Olympic team, virtually all their expenses are paid by the U.S. Olympic Committee. That includes travel to and from the competition trials, \$300 that may be used for clothing and competitive gear, \$4 a day, and food and housing during the contests.

Long before selection, however, most athletes have spent small fortunes to maintain their competitive edge. Most compete year-round, and this means entrance fees and travel expenses. There are also equipment outlays. For example, fencers must replace \$17 foil blades with monotonous regularity.

Bobsled instead of a car

Then there are the big money items. Bobsleds cost as much as a new car. Olympic-class yachts and champion horses can run into six figures. Says sailor Buddy Melges: "Money is a must."

The Howard B. Siler family in Brushton, N.Y., knows that well. A district manager for Combined Insurance Co. of New York, Mr. Siler is driver and owner of two bobsleds. He was on the Olympic team in 1968 and 1972, and in 1975 drove on the U.S. world team in Italy.

"Instead of buying a new car last year, I got a \$3,500 bobsled," he says. "I'm fortunate; my family wants me to win as much as I do." Mr. Siler, who has three children, estimates that international bobsled racing has cost him at least \$50,000 over the past five years.

Bobsledding demands emotional maturity and steely nerves. "When you're shooting down a run at 100 miles an hour, you've got to remain cool-headed and keep your mind on only one thing—going faster," says Mr. Siler. "The difference between winning and losing is how close you're willing to come to flying off a curve at full speed."

Medical school

Sometimes, Olympic hopefuls must consider choosing between sports and their jobs. Dr. Michael Woods, an intern anesthesiologist and speed skater from Milwaukee, recalls: "There were times, especially in medical school, when my schedule was ridiculous; I'd start training at 11 p.m., grab a few hours of sleep, and then report to the hospital by 6 a.m. for 12-hour duty."

In 1978, Dr. Woods, 27, recorded the fourth best time in the 10,000-meter race. He also went to the 1976 Olympics in Innsbruck, Austria. While he considered giving up competitive speed skating several times, he says, "I'm

The High Cost of Winning

In international sports, the nation that spends the most in training its athletes is likely to win the most.

The United States is the only country whose government does not help subsidize Olympic athletes. East Germany committed an estimated \$300 million to prepare for the 1980 games, and the Soviet Union is not far behind.

Overall, the U.S. teams placed third behind East Germany and Russia at the 1976 Montreal Olympics. Both countries have dozens of training centers for their athletes; the United States has two.

"If we don't obtain the necessary finances through corporate support, we don't get it," says two-time Olympic decathlon champion Robert B. Mathias, director of the U.S. Olympic Training Center at Colorado Springs, Colo.

Immediately following the 1976 Olympics, the United States began a massive fund-raising effort for 1980. The U.S. Olympic Committee's goal was a paltry \$26 million, with corporate sponsors providing a minimum of \$9 million. So far, at least 70 companies have pledged donations. In return, corporate sponsors get to use the Olympic symbol and tie their product promotions into the Olympics, depending on their level of sponsorship.

Burger King Corp. donated \$2 million to support the nation's Olympic training facilities at Squaw Valley,

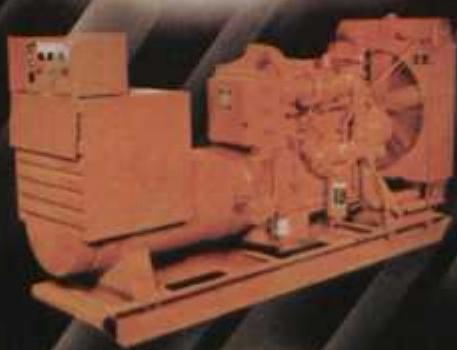
Calif., and Colorado Springs. Each center can accommodate 500 athletes at a cost of \$8.14 a day. Two more centers are planned for Lake Placid and Baton Rouge, La.

Besides outright cash donations, companies can contribute to special programs such as testing and sports medicine. Data General of Westboro, Mass., for example, donated a computer that is used in biomechanics. Also, a business can become a national sponsor of a division of the Amateur Athletic Union. Several firms have done that, including Standard Brands, which sponsors the national indoor track and field championship.

Some companies have adopted a policy of hiring Olympic hopefuls and allowing them time to continue their training while working. For example, one of the best known employees of Anheuser-Busch, Inc., is Tom Stock, an instructor in sales training in St. Louis and the U.S. superheavy weightlifting champion. He was the first Olympic-caliber athlete hired by the world's largest brewer as part of a broad-based company program to help support amateur sports.

Art Kuman, director of corporate participation for the U.S. Olympic Committee, says: "We're delighted with the backing that business has given us, but we're still a long way from matching the support most European countries provide. Business's support is a must."

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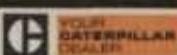
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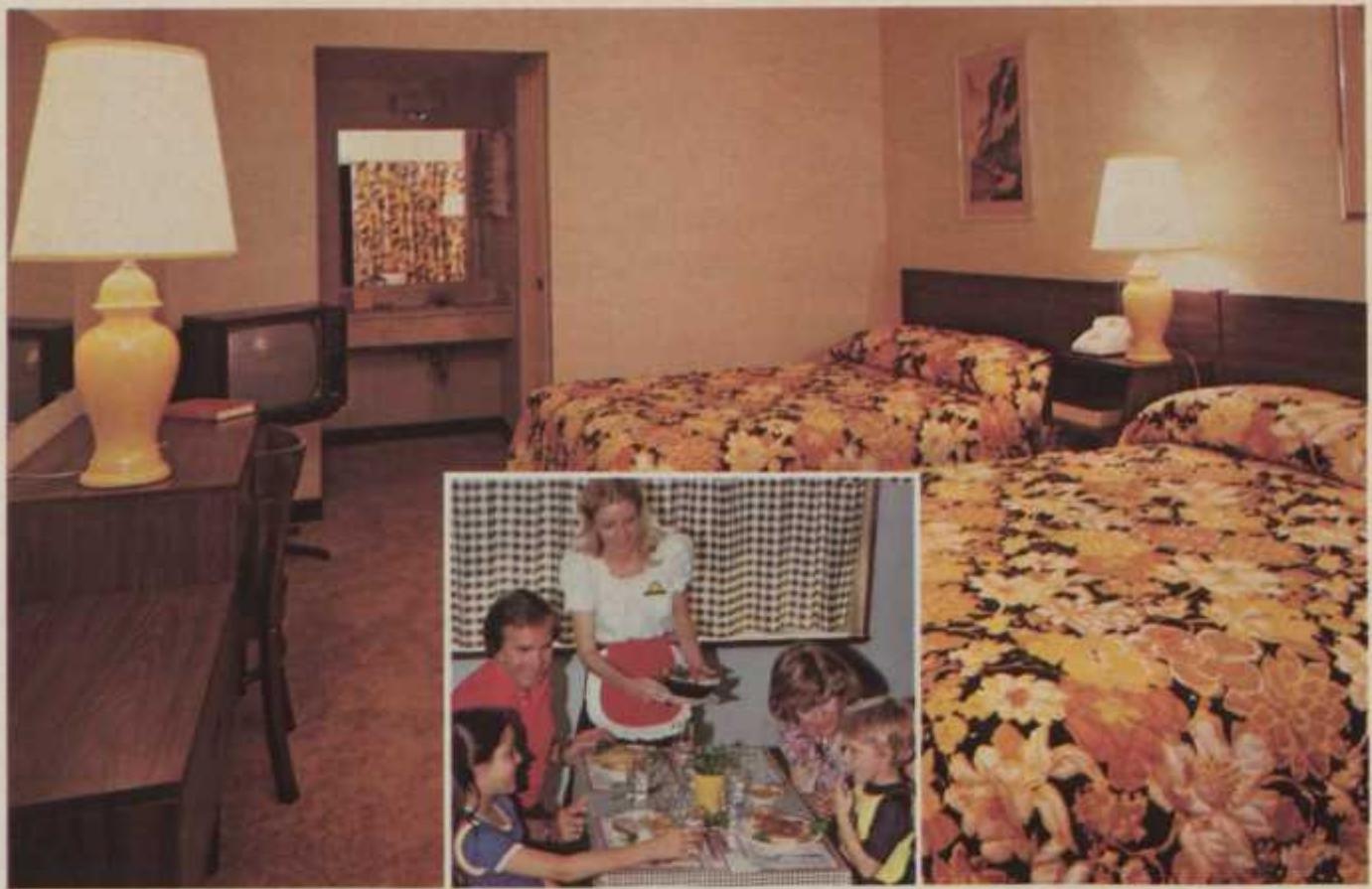
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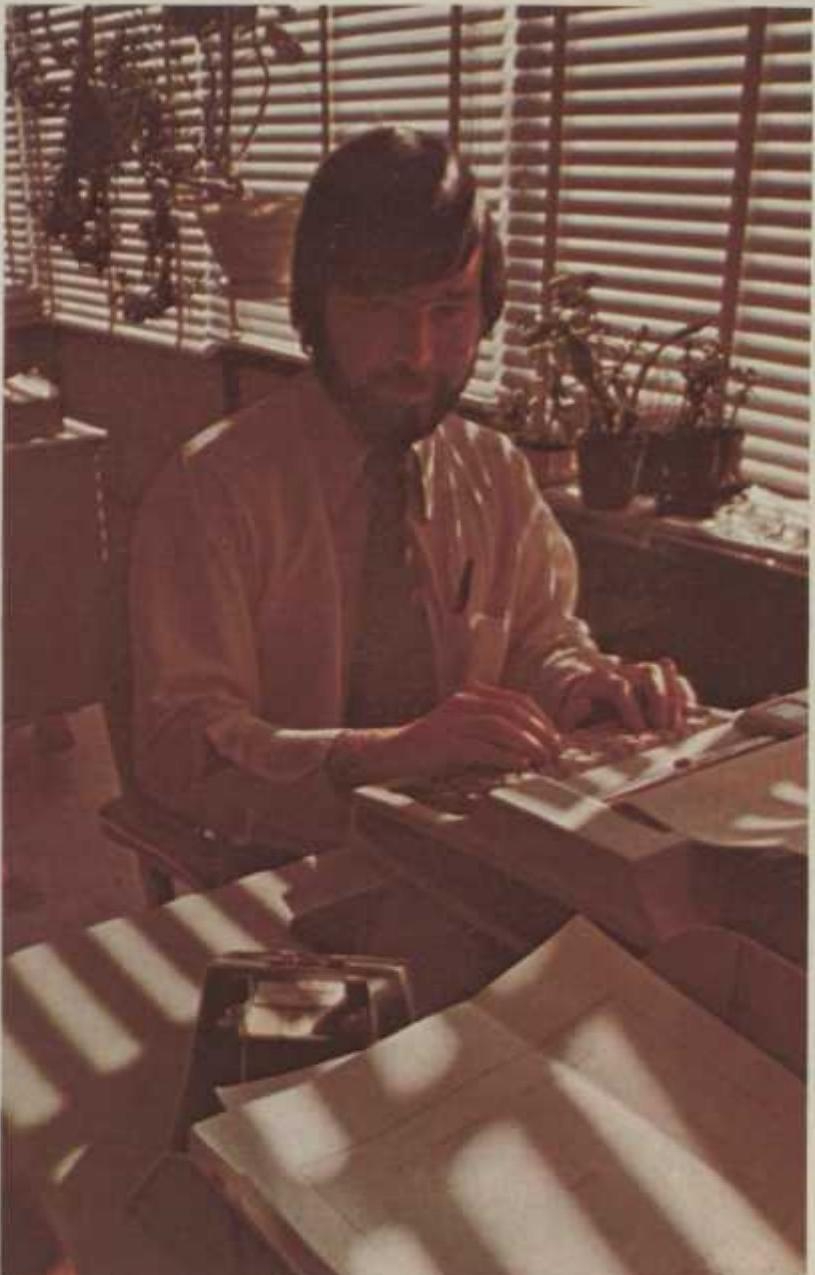
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glad I stuck it out. Later, I would have regretted it."

The Olympic Games of 776 B.C. were the first actually recorded. Coroibos of Olis was named winner and champion of the one event—the 186-yard stadium race. In 393 B.C., the contests were discontinued. After a 1,500-year lapse, the modern games were revived in France.

Olive wreaths

The original prizes were only olive wreaths, but eventually champions began to acquire valuable rewards. Today, while Olympians are barred from engaging in athletic competition for money, substantial monetary rewards can accrue just from being associated with the Olympics.

Olympic gold medalist Buddy Melges has raced yachts all over the world. "The result," he says, "has been business for my company in numerous overseas markets."

The sail-making end of his operation grosses about \$650,000 a year. He attributes at least 40 percent of this to his reputation in international competition. Melges Boat Works also turns out about 350 boats a year, grossing about \$1.5 million. "A sizable percentage of the orders can probably be tied directly to my association with the Olympics," says Mr. Melges.

Olympic fame is proving bountiful for discus thrower Al Oerter as well. "New and potential careers are being opened to me," he says. He is writing a preface for an Olympic diary, and he is under contract to author a how-to book on strength-gaining, an appropriate subject for a man thought by many to be stronger today than he was when he won his first gold medal at 20.

ABC commentator

Distance runner Marty Liquori is following a similar course. In addition to *Athletic Attic*, he derives income from an autobiography about one year in the life of an Olympic runner. He also helps design running shoes for the Brooks Shoe Co., endorses a line of athletic wear, and works occasionally as a commentator for ABC's *Wide World of Sports*.

Like Mr. Melges, Edward E. Emerson of Stratford, Vt., operates a business that has benefitted directly from his association with the Olympics. He owns Tamarack Hill Farm, Inc., riding stables, and the better he does when he makes the U.S. equestrian team, the more students will want to take lessons from him. Mr. Emerson, 38, was

Souvenir Showcase

Sponsors and licensees have spent billions of dollars producing a dizzying array of Olympic memorabilia; most of it reached the market last fall.

More than 400 products from 100 or so official licensees are making the most of the sports spectacular. Products run the gamut from games to clothing. All of them display the logo of the XIII Olympics or the official mascot for the games—a raccoon.

"The Olympic Winter Games will showcase American products as well as athletes," says John R. Musgrave, director of marketing for the Lake Placid Olympic Organizing Committee. "The sales income will be used to finance the operating costs for the games."

The final tab is expected to be \$46.7 million. The committee expects to generate more than \$2.5 million alone from the sale of Olympic-related merchandise. Most of it will be derived from royalties, although some firms like the U.S. Tobacco Co. are donating part of their sales proceeds.

The Winter Olympics will be especially lucrative for Capital Sports, Inc., which was appointed the exclusive

worldwide agent for all commercial activities. Headquartered in New York, Capital Sports is run by former athletes John D. Carroll and Robert J. Arrix.

By the time the winter games begin next month, about 120 firms are expected to have exclusive licensing contracts for marketing merchandise. Capital Sports will be responsible for about half of them. The licensing and sponsorship procedures are similar for the summer games.

Marketing efforts are likely to generate about \$45 million, including \$20 million alone from corporate sponsorships, licensing, and publication and film rights.

Capital Sports was started six years ago when the founders recognized the opportunities in marrying the worlds of sports and business. "Our organization enables companies to turn their donations to sporting events into an investment," says Mr. Carroll, a former member of the Philadelphia Phillies organization. "Today, business support of amateur and professional sports is no longer a public relations tool; it's a straight merchandising and marketing function."

on the 1974 U.S. equestrian team that won a gold medal at the world championships in England.

The 1980 Olympics will be a turning point for some of America's amateur athletes. Careers, other interests, and finances will require them to rearrange their priorities.

"You try and hold onto what you were first and foremost—an athlete—but each year it gets harder to blend the two," says Mr. Liquori, who doubts he will continue trying to become the best 5,000-meter runner in the world after this year.

Edward S. Bozek, a fencer and an economist with the Commerce Department in Washington, D.C., shares a similar fate. "I'm now in the process of reevaluating my career," says the 29-year-old specialist in Soviet affairs. Mr. Bozek was a member of the U.S. Olympic fencing team in 1972 and 1976. He has been national fencing champion twice since he first entered international competition 11 years ago.

"It has come down to a matter of basic economics," he says. "Fencing is not going to feed my family and, as

much as I love the sport, it offers no long-term security."

For some, physical condition will ultimately determine how long they stay in international competition. Elizabeth R. Anders, 28, of Philadelphia, is a star player on the U.S. women's field hockey team. "I expect to compete as long as I can maintain my stamina and agility, which should be at least four more years," she says.

Miss Anders teaches health and physical education at Perkiomen Valley High School in Collegeville, Pa. She also coaches women's basketball and field hockey. This will mark the first year that women's field hockey will be in the Olympics.

Working aside, every athlete knows there is a limit to how long he or she can continue competing. They have no illusions about this. Time is their nemesis. And after "the thrill of victory or the agony of defeat," there is always another competitive arena in business and other careers. □



To order reprints of this article, see page 38.

The Primary Bandwagon

Beginning with New Hampshire, the candidates will test themselves in a record 35 state contests

By Vernon Louviere



Candidates often find themselves in unusual situations on the campaign trail in the primaries. President Gerald Ford modeled a sombrero to impress voters in the 1976 race for the nomination.

**Campaign
'80:**

IN OCTOBER, 1975, a Gallup poll found that less than three percent of American voters favored Jimmy Carter to be President of the United States. Four months later, he chalked up 28 percent of the vote in the New Hampshire presidential primary, and that was the end of the Jimmy-who? jokes.

In 1964, Henry Cabot Lodge, an unannounced presidential candidate, walked off with 35 percent of the vote in New Hampshire although he was half a world away serving as ambassador to South Vietnam. Later that summer, Sen. Barry Goldwater of Arizona won a sweeping victory at the Republican convention in San Francisco.

In 1952, Sen. Estes Kefauver of Tennessee plucked every presidential primary save one, but the Democrats gave the presidential nomination to Gov. Adlai Stevenson of Illinois. Sen. Kefauver actually won 64 percent of the vote in 15 of the 16 primaries that

year. Gov. Stevenson placed seventh with only 1.6 percent of the total vote.

The political world is now bracing for the New Hampshire primary on Feb. 26. However, the pilgrimage to this symbolic shrine of presidential aspirations has been under way for several months. Like the baseball pitcher who tugs at his cap before each pitch, every candidate feels compelled to make the trek to New Hampshire. The ultimate stake—four electoral votes.

Expensive contests

For any politician with White House ambitions, there is a mystique about winning the New Hampshire primary, although a victory there has little significance when all the votes are counted in November. Still, since 1952 no one has been elected president without having first won the New Hampshire primary.

More than anything else, presidential primaries have become expensive



The primary trail can make or break a candidate. President Carter was a political unknown until the primaries in 1976. Only through perseverance in every primary did the former governor of Georgia defeat household names on the national political scene. Talking to the individual voter was his goal.

endurance contests, testing the physical stamina of the participants and often unduly influencing the choice of candidates at national political conventions.

This year, there will be a record 35 primaries, 17 caucuses, several straw votes, and an assortment of precinct, county, and state party conventions, all designed to produce delegates for the national conventions. Some candidates will try to visit every state with a primary, not once but several times. The total cost to the candidates, and the taxpayers through matching federal funds, is incalculable.

The picture that will unfold through the media is familiar—candidates sloughing through New England snows; shaking hands at dawn at a Pittsburgh steel mill; talking with wheat farmers at a Kansas cooperative; standing on the reviewing stand at a Memorial Day parade in Kankakee; posing with a sombrero in El Paso.

In between, the interminable banquet circuit with the inevitable chicken, peas, and potatoes.

Isn't there a better way to pick our presidents?

One big primary

Hundreds of bills have been introduced in Congress since 1911 to reform the presidential primary system. None has gotten off the ground. The most persistent call has been for one big national primary and the elimination of the political conventions. This single primary would determine the candidates for the November elections. Another recent suggestion is that regional primaries be held within a specified few weeks.

The dilemma of the American political system is well described by Rep. Lee H. Hamilton (D-Ind.), author of one of the reform measures:

"The disjointed character of the present system of primaries has sever-

al undesirable consequences. Perhaps most important among these is the debilitating effect on presidential contenders. How can a candidate adequately convey his points of view when he spends most of his time crisscrossing the country? A premium is placed on the candidate's physical and mental endurance, to the exclusion of his intelligence, his familiarity with the issues, his common sense, and his capacity to lead."

Handpicked delegates

Primaries have been around since 1912 when there were 13. Over the next 56 years, the number seesawed between 13 and 19. After the 1968 Democratic National Convention in Chicago, which was wracked by riots and bitter dissension, the liberal wing of the party demanded changes in the way convention delegates were chosen. A major complaint was that delegates were handpicked by party leaders or owed their selection to secret caucuses and other closed-door affairs. The call for change also focused on bringing more women, blacks, young people, and other minorities into the nominating process.

To do this, the dissident Democrats had to wrest control from party bosses and turn over most of the nominating machinery to the so-called ordinary people. The phrase, "participatory democracy," was heard often at meetings hammering out reforms. Detractors complained that the presidential selection system was being turned over to amateurs and ideologues.

The changes were wrought in 1972 and 1976. The Democrats decided that primaries were useful in promoting "full, meaningful, and timely participation" at the grass roots. The number of primaries increased from 15 in 1968 to 21 in 1972, to 27 in 1976, and to this year's record 35.

Balance needed

"I think we need a few primaries around to test our potential nominees, but there has to be some balance," Democratic National Chairman John White told NATION'S BUSINESS. "There used to be too few, now we've got too many."

Mr. White agrees that too many primaries "wear out the candidates, wear



Sen. Edmund Muskie led preprimary polls for the Democratic nomination, but lost out in the snows of New Hampshire.

out the financial resources, and wear out the emotions of the people."

So does F. Clifton White, who headed a small team that put together the Draft Goldwater Movement and won the Republican presidential nomination for Sen. Goldwater in 1964. "One of the great strengths of America has always been its pluralism, and that applies to primaries as well as everything else," says Mr. White. "I like a mix—some state primaries and some state conventions. Now, we have too many primaries. The candidates are getting overexposed."

The reforms, some of which have also been adopted by the Republicans, have resulted in handing out responsibilities to people who are not always prepared or capable, in Cliff White's view. He explains: "Many of these people now in the system are obviously not politicians or even active civic types in the community. We are asking them to judge who is qualified to be the next president of the United States.

"What is needed is a little leavening

of the practical politician. One thing about practical politicians, they want to win. They will look at a candidate in terms of his chances of winning. If you're looking for a doctor, you don't stand on the street corner and ask the first guy who comes along to recommend one."

Staggering blow

Mr. White, who has been involved in many presidential and other political campaigns, is convinced that the results of primaries, particularly the early ones, can influence candidates out of proportion to their importance in the overall selection process.

A case in point is what happened to President Lyndon Johnson in 1968. Sen. Eugene McCarthy of Minnesota, deeply opposed to the Johnson administration's conduct of the Vietnam war, announced he would run against the President in four primaries. In New Hampshire, Sen. McCarthy scored a moral victory. Mr. Johnson won only 49 percent of the vote against

A Comedy of Political Errors

Without those moments of humor that mark most American presidential campaigns, the candidates and their staffs would be hard put to withstand the rigors of political barnstorming.

Bill Sturdevant, a Washington consultant who worked on several Democratic presidential campaign staffs, recalls the 1956 campaign of the late Sen. Estes Kefauver of Tennessee who was running for vice president. The campaign was not going well—at every stop Sen. Kefauver's entourage was greeted by people wearing IKE buttons, pushing the reelection of President Dwight D. Eisenhower.

Mr. Sturdevant suggested that Sen. Kefauver meet the issue head-on. On his next television appearance the candidate should display the hated IKE button and say: "Do you know what IKE really stands for? It means 'I Know Estes.'"

The senator did as he was told... almost. He flashed the IKE button and said: "Do you know what this IKE really stands for? It means 'I Know Kefauver.'"

Campaign staffs sometimes find that the biggest burden is keeping the candidates' wives happy. In 1968, an unnamed presidential hopeful was

campaigning in New Hampshire when his wife told the staff she expected generous press coverage.

"While the candidate was making a swing up the western side of the state, we arranged for his wife to campaign up the eastern side," recalls a staffer. "We had two press cars accompanying her, with reporters and a television cameraman. She was impressed."

What the wife didn't know was that the bogus press corps was recruited from a New Hampshire college. They took voluminous notes that never became stories, and the TV cameraman had no film. The candidate's wife was never the wiser.

Small incidents, often resulting from the fatigue and frayed nerves that accompany grueling schedules, can be blown out of proportion. During a 1948 whistlestop tour through the Midwest, Gov. Thomas Dewey of New York, the Republican presidential nominee, was addressing a gathering from the rear of his observation car when the engineer inadvertently jerked the train. Overreacting, Gov. Dewey shouted into the microphone: "What the hell is wrong with the stupid engineer?" The outburst is said to

have lost Mr. Dewey countless blue-collar votes.

On another whistlestop tour in 1960, Sen. Lyndon Johnson, Democratic vice presidential candidate, campaigned from Alexandra, Va., to New Orleans. As the train pulled into and departed from each of dozens of cities and towns, a recording of the song, *Yellow Rose of Texas*, blared out from speakers on the train. Understandably, the song began to grate on everyone's nerves after a while.

As the campaign train slowly left a small South Carolina town one evening, Sen. Johnson was waving and smiling, and the song came on louder than usual. He turned to his aide, Bobby Baker, who operated the record player, and said: "Bobby, turn off that thing." The aide did not hear him, and Sen. Johnson, somewhat agitated, repeated his request. Again Mr. Baker did not hear, and Mr. Johnson, with the microphone in front of him still open, shouted: "I said turn off that --- Yellow Rose."

The train picked up speed and disappeared into the twilight. On the faces of some of the townspeople were puzzled looks.

the senator's 42 percent. Nineteen days later, the President stunned the nation by announcing he would not seek reelection.

In 1972, Sen. Edmund Muskie of Maine was considered the frontrunner for the Democratic nomination. Sen. George McGovern of South Dakota decided to take on Sen. Muskie, who was far better known, having run unsuccessfully for the vice presidency four years earlier. In the New Hampshire primary, Sen. Muskie won 46 percent of the vote against Sen. McGovern's 37 percent, a poor showing for the Maine senator. In the next four primaries, Sen. Muskie started to slip. After the Pennsylvania primary, in which he placed fourth, he simply stopped campaigning. Sen. McGovern went on to win the nomination.

Religious issue

Candidates who win primaries and go on to become president are not inclined to criticize the system. Richard Scammon, director of the Elections Research Center in Washington, D.C., is convinced that John F. Kennedy would not have been nominated in 1960 without the West Virginia primary.

Early that year, it was obvious that Catholicism would be a major issue. No Catholic had ever been elected president. The then-senator from Massachusetts decided to resolve the issue in strongly Protestant West Virginia. He defeated Sen. Hubert Humphrey of Minnesota by 236,510 votes to 152,187, and the religious issue vanished.

Why some states have primaries and others don't is left to the state legislatures. The political parties have no say. Federalizing presidential primaries would impose uniformity on such elections, but the constitutionality of such a law most certainly would be subjected to court tests, and the outcome would be debatable. Meanwhile, a hodgepodge of state laws determines how delegates are selected.

Backing the loser

For example, Maryland had a primary in 1964, but not in 1968. The reason generally given is that Gov. George Wallace of Alabama, running as a third-party candidate, embarrassed the state by piling up a huge vote against a stand-in candidate for President Johnson. The primary was restored in 1972.

Louisiana will have its first primary election this year. Ken Bode, political correspondent for the National Broadcasting Co., told an American Enter-

prise Institute forum why Louisiana took this step:

"I asked the counsel to the governor why the state was adopting a primary. He said: 'Because the political leaders of this state simply couldn't get right on elections. In 1960, we backed Johnson, and Kennedy won. In 1964, we were basically for Goldwater, and President Johnson won. In 1968, we were for Humphrey, and Wallace carried the state. In 1972, we guessed wrong again [when President Nixon defeated Sen. McGovern]. In 1976, we were against Carter, and he won the state. We decided finally that we would just let the people decide how to do this thing. Maybe they could figure it out better.'

Sen. McGovern, who helped spearhead reforms in the Democratic party, acknowledged before he entered the first primary in 1972 that without changes in the delegate selection system he would not have gotten into the race.

"Under the old system, where national convention delegates were mainly chosen by party leaders, I would have had no chance. Ed Muskie would have had the nomination clinched by now," he said.

Traditional clashes

The convention at which Sen. McGovern was nominated was not without the kind of intraparty clashes for which the Democrats have a traditional bent. Eighty-two separate challenges were filed against 1,289 delegates, which represented more than 40 percent of those attending. Ironically, one of these involved Sen. McGovern, whose California delegation was elected in a winner-take-all primary.

Challengers claimed this violated a voluntary guideline urging proportional representation. Another major dispute developed when the late Mayor Richard J. Daley's Chicago delegates were challenged on the issue of illegal slate-making.

Whether the proliferation of primaries and the onset of reforms in both major parties improve or weaken the selection system is the subject of considerable and continuing debate. But there is no dispute about voter turnout before and after reform.

In the 1968 general election, 61 percent of the eligible voters went to the polls. In 1972, the first election after reform, the percentage dropped to 55 percent. In 1976, it was 54 percent. Between 1946 and 1968, the average

PHOTO: HARRY REDL—BLACK STAR



Sen. Henry Cabot Lodge walked off with the New Hampshire primary in 1964, but never clinched the GOP nomination.

PHOTO: CALVIN S. CAMPBELL—BLACK STAR



Sen. Estes Kefauver won every primary save one in 1952, but he lost the Democratic prize to Adlai Stevenson.

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"The great Florida crapshoot" is what GOP National Chairman Bill Brock called that state's Republican presidential straw vote last year. It certainly was an expensive crapshoot and gives a hint of the kind of money that is being spent in the 1980 presidential campaign.

By many accounts, the two leading contenders, Ronald Reagan and John Connally, spent about \$250,000 each on what was at best a popularity contest.

Florida's convention delegates will not be chosen until the March 11 presidential primary.

Mr. Connally, according to some reports, may have spent as much as \$350,000. Since he placed second

with 354 votes, that comes to \$998 per vote, which might be the most expensive per-vote price yet. Mr. Reagan won with 483 votes.

Months before the presidential election, campaign spending is running at a record clip. According to figures filed last September with the Federal Election Commission, Mr. Connally had already spent \$3,272,630; Mr. Reagan, \$2,566,099; Rep. Philip Crane (R-Ill.), \$2,923,007; and George Bush, \$2,296,063. Among the Democrats, President Carter was listed as having spent \$1,535,956, and California Gov. Edmund Brown, Jr., \$171,209. Sen. Edward Kennedy (D-Mass.) had not yet officially entered the race.

turnout in primaries for both the Republicans and Democrats was 39 percent. The average in 1972 and 1976 was only 28 percent.

Austin Ranney, a resident scholar at the American Enterprise Institute and a member of the Democratic National Committee's Commission on Presidential Nomination and Party Structure, supplied those figures during an institute forum.

He comments: "You can see what cleaning up the system has done for popular confidence in the process. A few more reforms and I would say that a real cataclysm could occur."

Voter dissatisfaction

Another critic of reform is Newton N. Minow, former chairman of the Federal Communications Commission and a Chicago lawyer who served as co-chairman of the Carter-Ford debates in the 1976 election. He says the present primary system almost seems as though it were designed to bar or eliminate good candidates of both parties. He blames the system for much of the growing voter dissatisfaction with the political process.

In Mr. Minow's opinion, nominating powers have been taken away from one kind of boss and turned over to another—the unrepresentative party activists who are usually concerned with one issue or with narrow special interests.

And, says Mr. Minow, because moderates and independents who make up the broad base of the American elector-

ate usually don't vote in primaries, the decisions are made by motivated extremists of the left or right.

While the first primary is not until next month, Iowa will select its county convention delegates this month, when precinct Democrats and Republicans gather in church basements and firehouses and even private homes. The county convention delegates will, in turn, choose delegates to congressional district conventions, state conventions, and, finally, the national conventions.

After such caucusing in 1976, Jimmy Carter, who had been traveling around the country for more than a year announcing he was running for president, began to be accepted as a serious candidate. He received 28 percent of the vote.

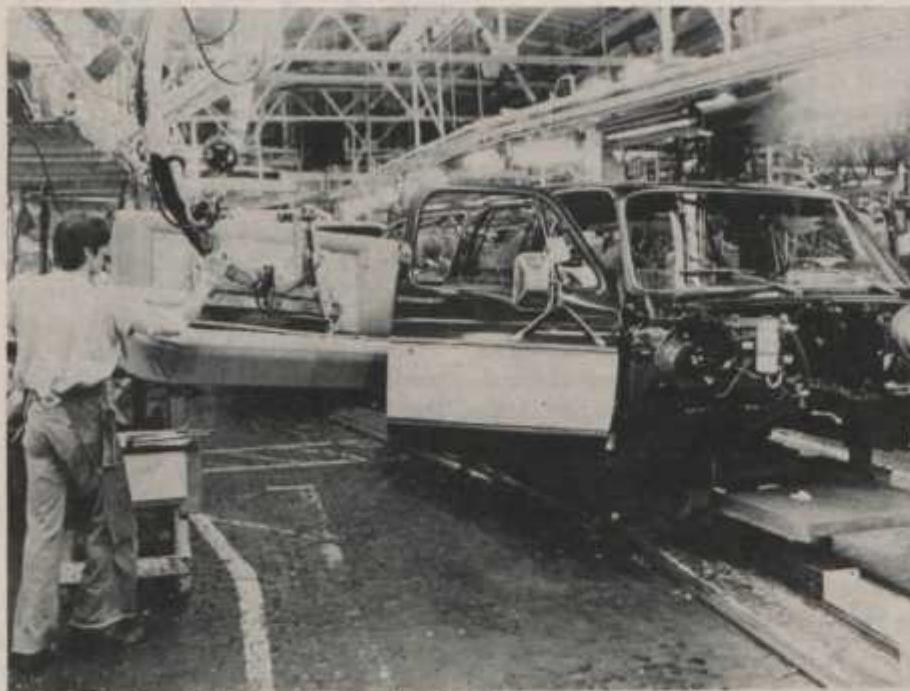
As the 1980 political marathon gets under way, three Democrats and ten Republicans are in the starting gate. The Republican finish line is at the national convention in Detroit in July. The Democrats wind up a month later in New York City.

"By the time we get around to electing the president, we're so tired we don't care anything about it anymore," says Democratic Chairman John White. "It's kind of like watching bowling on television. But we ought not to tire of the most important civic responsibility we have. The truth is you can get people excited only so often in the political process." □



To order reprints of this
article, see page 38.

Auto Sales Are Heading for a Skid



U.S. automakers talk optimistically about 1980 sales, but analysts see a decline in number of domestic vehicles sold. Foreign car sales are expected to stay at about 20 percent of the total market.

Despite the flurry of television commercials and offers of factory rebates, auto sales for 1980 are probably going to take a dive, says Lawrence Chimerine, vice president and chief economist for Chase Econometrics in Bala Cynwyd, Pa.

He sees total car sales in 1980 at 9.1 million, down 13.3 percent from his 1979 estimate of 10.5 million units and 19.5 percent from 1978's 11.3 million units, the best year since 1973.

David L. Babson & Co., Inc., investment advisers in Boston, is more optimistic, but sees a two-year drop of 12.5 percent from 1978. However, says Babson & Co., "the current slowdown in car sales and production should be milder than in 1973-75."

Although recovery may come by 1981, "American automakers have a tough row to hoe in the long run," says the Babson firm. "Designing and building cars that meet all the antipollution, gas mileage, and safety requirements are going to take multi-billion-dollar investments on top of the billions already spent."

At the same time, says the firm,

competition from foreign automakers will increase.

Over the past decade, the number of imports and their percentage of total auto sales in the United States have doubled. Imports accounted for more than 22 percent of sales in 1979, and Dr. Chimerine sees imports at 20 percent or so in 1980, leaving domestic sales at about 7.3 million units. He expects the two point drop to result from greater American production of small cars such as General Motors Corp. X-body cars, but the decline "is still nowhere near enough to be much help to the domestic automakers."

The auto sales downturn will run into the summer as the recession intensifies, says Dr. Chimerine. "The advance buying of a few months ago just borrowed from the future."

Also, people are keeping their cars longer—for a variety of reasons. Auto loans for the increasingly more expensive cars now average close to 48 months, says the Chase economist, and people are reluctant to sell before the car is paid for. Used car prices are down, and people hesitate to trade in

cars when they can't get a good deal. Also, people are driving less.

Dr. Chimerine believes that government loan guarantees might not be enough to support the ailing Chrysler Corp. past this year, especially if 1980 is a bad year generally and Chrysler's already small share of the market gets even smaller.

Even if Chrysler fails, the impact will be minimal, according to Babson. Says the firm: "While the loss to Chrysler creditors and shareholders could be large, the company's plants would almost certainly continue to operate, and the impact on the economy as a whole would not be disastrous."

Automakers, of course, are more optimistic about the future than the analysts. Chairman Thomas A. Murphy of General Motors sees vitality in the industry and predicts that sales will soon climb. "Only the gasoline shortage prevented the 1979 model from achieving another record year for the industry," he says.

But, the analysts respond, as long as cars run on gasoline, those shortages are going to be felt.

Round Computers Calculate Faster

Looking a bit like an extra from *Star Wars*, the 6½-foot-high cylindrical CRAY-1 is among the first of a new generation of computers that are round rather than square.

The round shape allows the wires and circuits to be connected closer together so that the calculations—up to 80 million per second—can be done faster than with older equipment.

In its only commercial application, the CRAY-1, built by Cray Research, Inc., in Minneapolis, is being used at United Computing Systems, Inc., in Kansas City, Mo., a computer service firm. UCS has found that the CRAY is so fast, it needs two other computers to feed it.

"To take full advantage of its speed, the CRAY-1 has two DCD Cyber 170 series computers, very fast machines in their own right, organizing and



CRAY-1, the round computer, is faster, says Stephen Strohman, because its shape allows closer circuit connections.

queueing up jobs for it," says Stephen Strohman, vice president, operations. But, he adds, the attending computers never catch up to the CRAY while it is working. "By the time we learn the status of an operation, it has already changed," he says.

Aquaculture Called a Growth Industry

Fish farming—formally known as aquaculture—may produce a quarter of the U.S. fish output in ten years.

Estimates for 1979 indicate total shipments of \$89 million, less than one tenth of the value of fish caught in traditional ways. But by 1989, according to International Resource Development, Inc., of Norwalk, Conn., the value of shipments will be \$500 million. Aquaculture will boom, the market research firm says, because of the declining catch by commercial fishermen, an increasing appetite for fish worldwide, and the growing interest of private industry in fish.

Fishery products are used both as food and in industrial products, mainly meal and oil. Companies like the Campbell Soup Co., General Electric, and Weyerhaeuser Co. have fish farming projects that will produce cash crops later in this decade.

The most important species for aquaculture, says the firm, are finfish such as carp, yellowtail, trout, salmon, catfish, and tilapia; crustaceans such as shrimp, crawfish, and lobster; and

shellfish such as oysters, clams, and mussels. In addition, seaweed, which is a food staple in the Far East, is cultivated and processed for use in food products.

However, says the consulting firm, seaweed can be converted in digesters into a gas similar to natural gas. By the close of this decade, "it is probable that seaweed will be playing a modest role in energy production," the firm says.

Keep Training Manuals Simple

One of the main sources of employee error may be the manuals that are used to train them, says a University of Michigan educator.

"One of every four Americans in the work force is functionally illiterate, that is, unable to comprehend at least 50 percent of reading material beyond the fourth-grade level," says Bennett H. Berman, who works at the university's Institute for the Study of Mental Retardation and Related Disabilities.

"A significant number of work errors results not from an inability to do the job," he says, "but from a misunderstanding of what the job is. Many employees can't read the memos from the boss, the company's rule book, the training manual, or other written instructions."

And the problem is not limited to school dropouts. A federal survey in the middle 1960s showed that 55 percent of the country's high school seniors could not understand stories in *Reader's Digest*, 75 percent could not comprehend *Time* magazine, and 96 percent could not read *Saturday Review*.

However, says Mr. Berman, "90 percent of all meaning can be conveyed with a vocabulary of about 600 words. For maximum readability, he says, company manuals should follow this average guideline per 100 words: Seven to nine sentences; 12 to 14 words per sentence, and 140 to 160 total syllables."

Natural Gas Will Hold Price Edge

"Natural gas will continue to retain its price advantage over fuel oil and electricity through 1990 and beyond," says George H. Lawrence, president of the American Gas Association.

An association economic analysis continued on page 50B

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THE U. S. AMBASSADOR to Japan, Michael J. Mansfield, believes that the 20th century will go down in history as the Century of Asia.

What the former Senate majority leader is saying is that by 2000, the political, military, economic, social, and cultural influences coming from Asia will have become more dominant in determining the course of human events than European influences.

Already, the Asia-Pacific region has become the largest regional trading partner of the United States. Continued trade growth depends to a large extent on the success of the Asian nations in maintaining their development of the past decade.

On the brink

South Korea, Taiwan, Singapore, and Hong Kong are today on the brink of graduating into the ranks of the industrialized world. With other newly industrialized countries, they present American business with serious competitive challenges in the traditional fields of steel, chemicals, electronics, shipbuilding, and consumer goods.

Looming large in trade relations with the United States are five countries that have formed the Association of Southeast Asian Nations—ASEAN.

To some, the acronym may conjure a

faintly fuzzy comparison with the European Common Market. It is not. In fact, it is hard to see common ground for such diverse countries as the Philippines, Indonesia, Malaysia, Thailand, and Singapore. But Sen. John Glenn (D.-Ohio) has called ASEAN "the most important development in Southeast Asia since World War II."

ASEAN is:

- A five-nation pledge of regional economic and development cooperation that does not have a European-style market merger as a goal.

- An economic and political entity that supports nearly 250 million people, more than the population of the United States and Canada combined. Yet the disparities in wealth are as wide as the half dozen religions and hundreds of ethnic differences that characterize member countries. The island city of Singapore, where the average yearly wage per person is near the developed-world level of \$2,800, bears little resemblance to Indonesia, with its 3,000 miles of islands and 137 million people earning an average annual wage of \$240.

- One of the fastest growing regions in the world, where real economic growth has averaged 7.5 percent a year since the early 1970s. Yet the region is still based predominantly on ag-

riculture. Much of the expansion needs of the area are in heavy industry and high technology, but there is also a vast market for consumer products.

- An export market that has quadrupled in two years and has become the United States' fifth largest trade customer. Two-way trade in 1978 was \$12.5 billion with U. S. private investment at about \$4.5 billion.

- A major source of raw materials and, increasingly, of finished parts and products. The United States imports \$3.1 billion of petroleum from Indonesia. ASEAN also supplies 90 percent of U. S. natural rubber needs, 72 percent of tin, 14 percent of sugar, 17 percent of tea, and a growing volume of electronics and traditional consumer goods from footwear to clothing.

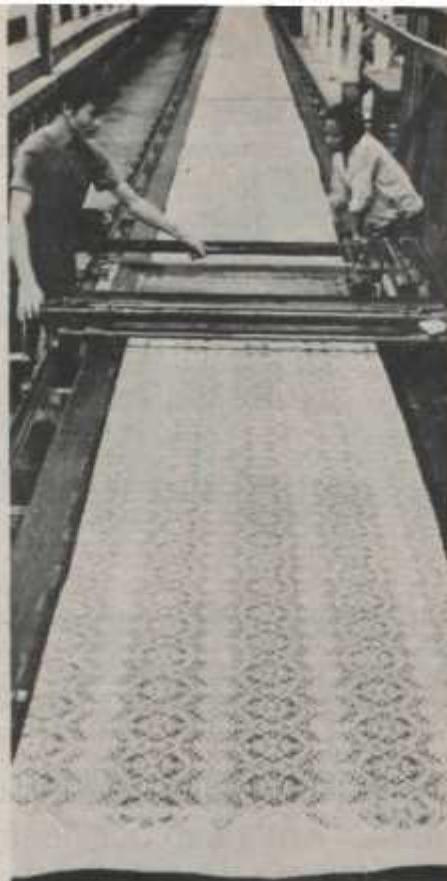
Market economies

"The general direction of business interests is more in the direction of ASEAN than China," says David D. Newsom, U. S. undersecretary of state for political affairs. "It may be that there will be great opportunities in China, but I have the feeling that something rather special has occurred with respect to the ASEAN countries."

Singapore's Ambassador to the United States, Punch Coomaraswamy, concurs. "Aside from the case-by-case



This hotel, office, and shopping complex in Singapore is typical of the downtown decor of many Western cities.



The ancient art of silk printing has become a manufacturing process at this United Industries plant in Bangkok.

PHOTO: JOHN LAUNOIS—BLACK STAR

comparisons of opportunities in ASEAN, which depend on the materials and products involved, we do hold one distinct advantage over other Asian regions—China included—for American business. We are all basically market economies, and that has to help a U.S. firm in its business dealings there."

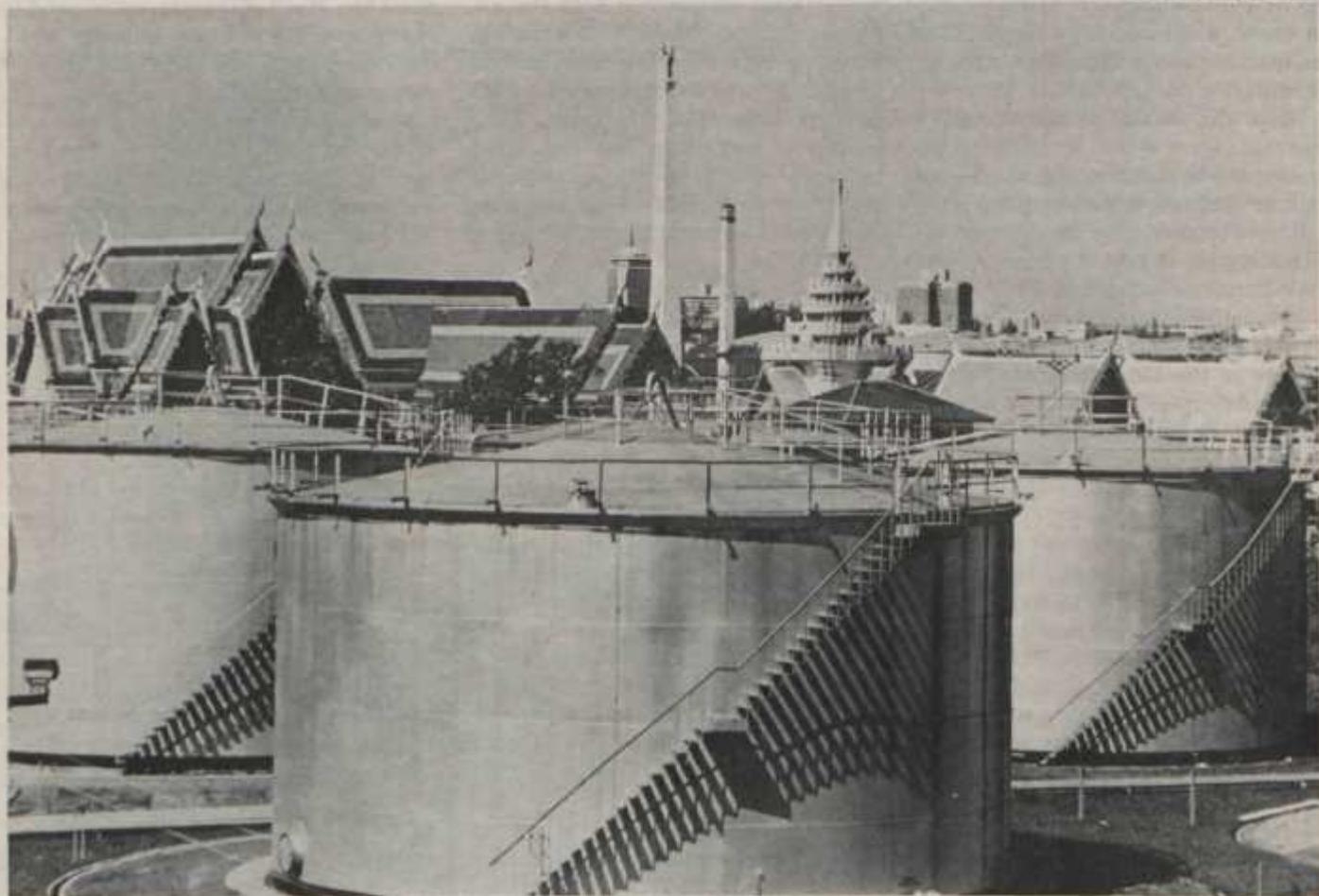
"For a company like Hershey, which waited many years before expanding and diversifying internationally, ASEAN holds more potential for profitable growth than Europe does," says Richard M. Marcks, vice president for international operations of Hershey Foods Corp.

Permanent headquarters

For years, ASEAN's pledge of togetherness was more a paper than a real pronouncement. Not much happened after its founding in 1967 until the first ASEAN summit meeting in Bali in 1976. At that time, the organization established a staff and permanent headquarters in Jakarta and developed ways to promote regional economic cooperation between governments and the private sector.

The U.S. withdrawal from Indo-

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The old accommodates the new in Bangkok, where the Temple of the Wa Klong Toey Nai, known as the Face of the East, is surrounded by oil tanks of major producers.



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And we can put it to work for your business.

The knowledge business





Superhighways are changing the face of Kuala Lumpur, Malaysia, as the country pushes to modernize itself and attract more foreign capital investment. Malaysia looms large in some companies' plans to locate in Southeast Asia.



Fabric from Korea is just one of the many consumer items that this non-ASEAN country exports all over the world.



Agriculture, still the primary industry in most of the ASEAN countries, provides the bulk of employment for a growing population. These rice terraces in the north Philippines are typical of the farming in that area.

China made the five member countries more sharply aware of the need for greater cohesion and cooperation. Undersecretary Newsom calls the five nations the dominoes that did not fall.

"Each of these nations has demonstrated a stability which, despite problems, offers hope for the developing world," he comments.

The real keys to integration of the ASEAN nations, says Lawrence B. Krause of the Brookings Institution, are their efforts to end commercial impediments among themselves. These steps include establishment of telephone and telegraph communications and mail service; standardization of weights and measures, and dismantling of excessive customs barriers. Tariff rates on more than 2,000 products have been lowered by mutual consent.

One significant factor in the ASEAN-American story has been the emphasis on U.S. relations with the association. Since the first ASEAN-U.S. ministerial dialogue in August, 1978, teams from the Export-Import Bank, which helps foreign buyers finance purchases of American products, and the Overseas Private Investment Corporation, which insures U.S. business investment

abroad, have held lengthy talks with ASEAN officials. Last year, Secretary of State Cyrus Vance met with the ASEAN foreign ministers to determine how the United States could assist the ASEAN nations in absorbing the increasing numbers of refugees from Vietnam and Cambodia.

No problem with Vietnam

While some observers see Vietnam's maneuverings on Thailand's borders as a threat to stability in the area, most Asia watchers believe Vietnam's present problems will compel stronger ties among the ASEAN nations.

"The Vietnamese have their hands full trying to consolidate their control over Laos and Cambodia," says Bernard R. Bell, former World Bank vice president for East Asia and the Pacific. "I don't believe American firms should worry particularly about Vietnam. I don't regard it as a serious threat to doing business there."

Neither does the U.S. Chamber of Commerce, which has established the ASEAN-U.S. Business Council. Chaired by Charles W. Robinson, a former deputy secretary of state, and composed of U.S. and ASEAN business leaders, the council seeks to facil-

tate bilateral relations among business people in that region and to increase American awareness of trade and investment potential.

Under the ASEAN Chambers of Commerce and Industry, 15 industry and commodity clubs have been formed to represent and coordinate the key manufacturing and commodity interests throughout the five countries.

The clubs, meeting at the national and regional levels, cover automobiles, rubber, cement, electronics, furniture, chemicals, farm equipment, glass, iron and steel, pulp and paper, food, textiles, and ceramics. They are composed of the national associations of one particular industry represented in three or more of the five nations.

Investment mission

Does ASEAN really work? Bernard W. Wolff, vice president of the Seydel Companies of Atlanta, a manufacturer of specialty chemicals, visited all five countries on an investment mission.

"In each country we found a commitment to meeting national objectives through free enterprise versus increasing governmental involvement," Mr. Wolff says. "This sounds very philosophical, but for us it's quite impor-

PHOTO: DAVID MOORE—BLACK STAR



Sophisticated manufacturing is making a good start in Singapore, but some operations still need handwork.

PHOTO: DAVID MOORE—BLACK STAR



Crowded open air markets are now the rule in many Indonesian cities, but if the country continues its development, such scenes may give way to department stores.



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tant. Our business is highly technical and service oriented. We have rather low sales volume, so we have to operate where we can get fairly high royalty rates, because when we sell at a profit, it's 70 percent service."

William E. Franklin, vice president of Weyerhaeuser's international operations, says his company has been in forest products production in ASEAN for a decade. "Our operations are complicated. We have highly skilled, competent employees. There also has been a stability in the governments since we've been there."

BankAmerica's Eric Hayden cites three attractive factors in the ASEAN region: "Its high growth potential, its vast wealth in natural resources, and its relatively low labor costs."

Anthony Albrecht, director of the State Department Office of Economic Policy for East Asia, summed up ASEAN's potential: "Our exports to the region have increased fourfold in the past ten years, faster than anywhere else."

"And it is clear that there is still plenty of need for U.S. technology, capital, and marketing skills. Beyond ASEAN is the wider Pacific Basin, which is going to be a very active place from now on."

Says Morgan Guaranty's Robert J. Wynn, vice president, Pacific/Far Eastern Administration: "Southeast Asia looks awfully good to me, compared to other countries around the globe."

Events may prove him right. □

The ASEAN Experience

Charles W. Robinson, chairman of Energy Corp. of Santa Fe, N.M., and former Deputy Secretary of State, is chairman of the U.S. section of the ASEAN-U.S. Business Council. In this interview, he discusses the implications of the first ASEAN-U.S. Business Council conference in Manila last year.

What did the Manila conference accomplish?

The conference went off much better than anyone anticipated. We set up a joint executive committee that will meet regularly, established working groups on selected subjects, and agreed that the entire group—including business leaders from the five ASEAN countries—will meet together once a year in a formalized, structured relationship.

What kinds of projects is the council looking at?

We're identifying investment opportunities in a wide range of industries.

In the automotive industry we plan to establish a mechanism for U.S. manufacturers to talk with their counterparts in the ASEAN countries about joint manufacturing and distribution programs. We're doing the same thing in banking.

What do ASEAN business people want from the United States?

They're interested in technology, management, marketing, capital, electronics, and electrical equipment. They mentioned specifically agricul-

tural chemicals and agribusiness equipment.

How much of a rival is China?

China offers an alternative for labor-intensive investment from the United States. But I think China has established unrealizable expectations and will have to cut back on its development goals. In China you're dealing with a socialist society; the ASEAN countries are dedicated to the private sector and free markets.

With the availability of skilled labor, ASEAN's natural resources could be developed in a much shorter time than China's. I'm convinced that the near-term opportunities for profitable investments are considerably greater in ASEAN than in China.

What about ASEAN's impact on the U.S. relationship with Japan?

Japan had been ahead of us in pushing its private sector into ASEAN and developing a dialogue with ASEAN. Now that our relationship with ASEAN has been formalized through the ASEAN-U.S. Business Council, I believe we have gone far in redressing the imbalance. I view the situation as healthy competition.

What are the prospects for the expansion of the ASEAN group?

Any Pacific economic community will have to involve ASEAN, Japan, and the United States. Australia, New Zealand, and Canada also play important roles in the economic development of this region, as do Hong Kong, Taiwan, and South Korea.



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Congress Will Put Most Issues on Hold

CONGRESS, whose members are generally more concerned with votes than legislation in an election year, is not likely to act on many of the tough issues left over from last year.

And having a number of presidential candidates in Congress will not improve the track record. Before the end of the first session, announcements had come from Sens. Howard H. Baker (R-Tenn.), Robert Dole (R-Kansas), and Edward M. Kennedy (D-Mass.) and Reps. John Anderson (R-Ill.), Philip Crane (R-Ill.), and Larry Pressler (R-S. Dak.).

Although the first session of the 96th Congress, which has been called nonproductive, unstable, and even vindictive, did pass the multilateral trade agreement and implementing legislation, most of the troublesome issues were swept aside. The most pressing are inflation and energy. The country still has an uncertain energy policy, and there seems to be no way to construct one without alienating one or more constituencies.

Mandatory curbs

The Middle East crisis and resulting oil shortages will intensify the struggle over whether the private sector is capable of meeting energy needs or whether the government should involve itself even more.

Much the same sort of contest will continue over the failure of voluntary measures to control inflation and pressures for mandatory curbs. The administration never achieved "a clear, simple, single economic philosophy" devoted to beating inflation, says former Treasury Secretary Michael Blumenthal.

Instead, he says, there has been a basic schizophrenia. "It was tighten the belt, but don't cut out any important programs; cut down on government regulation, but don't offend any special interest groups."

Then there is the budget. The intentions of the first session of the 96th Congress to balance the budget dissipated as quickly as New Year's resolutions. Spending pressures are even

greater in an election year. The crisis in Iran will almost certainly result in an increased defense allocation. A recession would make it difficult to cut many programs, especially those affecting the poor.

Foreign-earned income

Tax problems abound. There are 1,256 bills pending in Congress that would have some effect on tax laws. Among them are the proposed social security tax rollback, a value-added tax, and the independent contractor bill. Others cover taxation of fringe benefits, tax on foreign-earned income, and a proposed tax cut for individuals.

While this cut might seem politic and almost sacred in an election year, it could present problems. If the cut is too large, it could add to inflation, and if it is too small, it might be considered worthless.

Although many congressmen say they support the business community, Congress is unlikely to act on issues important to business, such as capital cost recovery, a larger share for developers of Alaska lands, and the reform or repeal of the Davis-Bacon act, which requires private contractors to pay certain wages to workers on federal construction projects.

SALT II remains unresolved, and world affairs seem unlikely to encourage congressional action. Former assistant secretary of defense Leonard Sullivan says: "Until the United States can decide where the Soviet Union is headed militarily and whether this country should enhance its defense momentum, we cannot knowledgeably ratify the SALT II treaty, and we should not."

Enough members of Congress agree with that viewpoint to ensure a wait-and-see attitude for some time.

Little chance

Regulatory reform has become bogged down in squabbles over the details of numerous bills. Stricter curtailment of the Federal Trade Commission remains an issue. The administration says that proposed measures could de-

lay the regulatory process, which would be wasteful.

There is little chance for the proposed repeal of the Jackson-Vanik restrictions, stipulating that communist countries entering into trade agreements with the United States must give assurances of free emigration policies. The Soviets have not met this requirement.

But President Carter's trade pact with China, which would give that country most-favored-nation status, seems likely to pass. That could further strain U.S.-Soviet relations.

Other issues such as national health insurance and hospital cost control stand even less chance of action this year. Toxic substances remain a problem, and guidelines on their transportation, storage, and disposal are likely to remain fuzzy.

Part of the failure of the first session of the 96th Congress to deal with major issues has been blamed on one-issue congressmen. A veteran of Capitol Hill says: "Many now won't support anything. They have no philosophy on the tough issues, but will trade votes with anybody to get their own single issue through."

Business wins a few

However, the 96th Congress has produced some wins for business in its first session:

- The President's complicated real wage insurance, with workers' income tax credits triggered by inflation, did not pass.

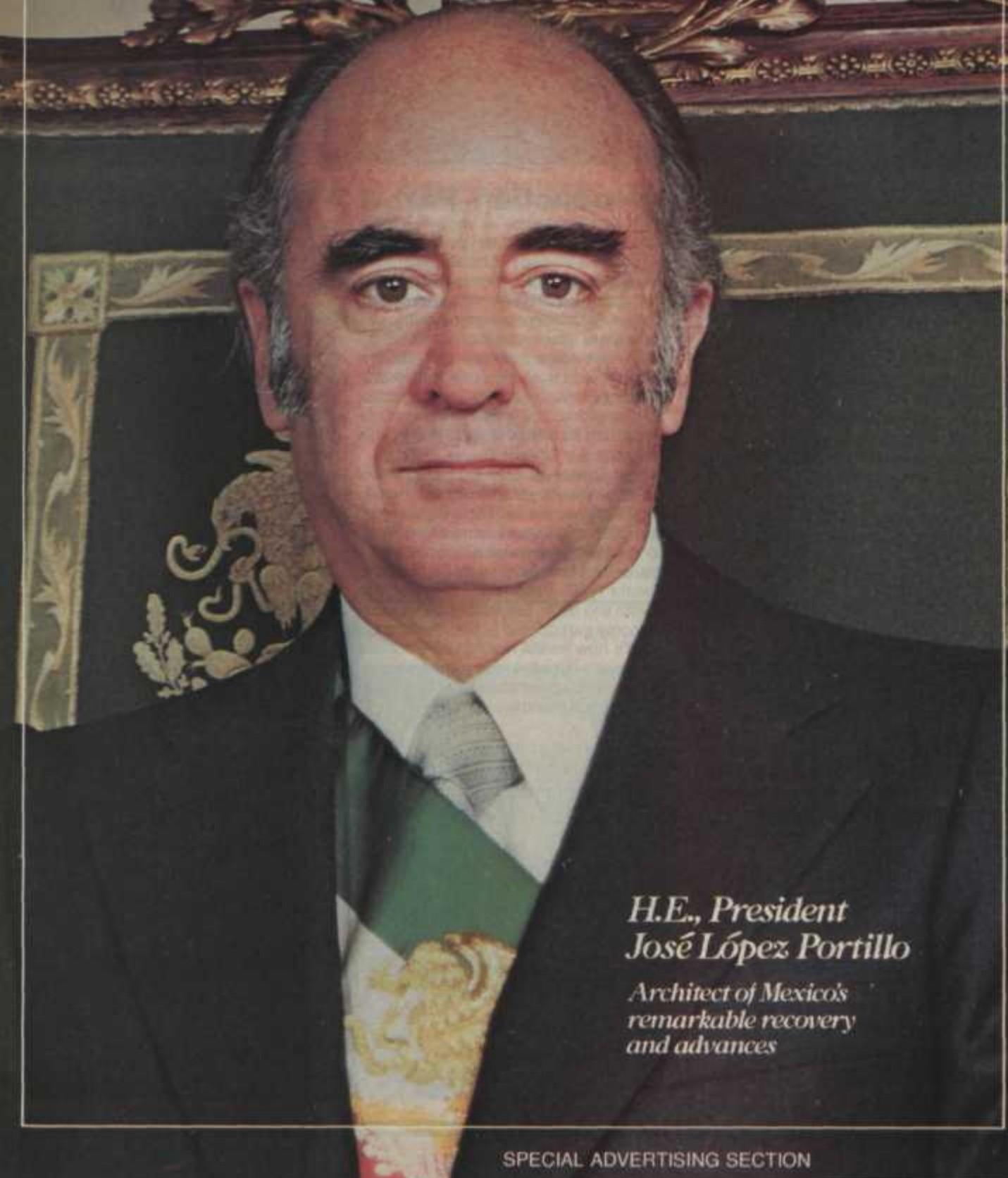
- The Renegotiation Board, created to monitor defense contracts and recover so-called excess profits, was allowed to end. Attempts to reauthorize the board were defeated.

- The fiscal 1980 authorization directs the Defense Department to file economic impact statements with Congress when it contracts out, with no waiting period before awarding contracts or obligating funds.

- A \$400 million private sector initiative program, designed to train the unemployed for work in industry, was approved.

Update 1980

MEXICO



*H.E., President
José López Portillo*

*Architect of Mexico's
remarkable recovery
and advances*



Introduction-Part II

Eleven months ago, NATION'S BUSINESS published a 32-page Special Feature entitled "Mexico's Economic Recovery," motivated by our neighbor's speedy and dramatic return to economic health.

Readers may recall that our February 1979 advertorial included an interview with the leader of Mexico's remarkable recovery, President José López Portillo, plus personalized business commentaries from 23 private leaders in Mexico's economy.

Today, while we enter the first month of the new decade and President Portillo begins the second half of his 6-year term, Mexico's ongoing economic recovery, coupled with impressive advances, justify this publication of a 16-page "Mexico Update 1980". Incidentally, a total of nine private and public interests in the Mexican economy participated in both features.

Let's now review results and evidence of Mexico's dynamic recovery as we consider related opportunities for U.S. investors and businessmen.



Capital: Mexico City

Population (1980): 71,246,240

Density: 70 per square mile

Distribution: Urban 60 percent
Rural 40 percent

Area: 761,604 square miles

Elevation: Highest point: 18,701 feet
Lowest point: 33 feet below
sea level

Official language: Spanish

Principal religion: Roman Catholic

Political divisions: 29 states, 2
territories, 1 federal district

Currency unit: 1 Peso = 100 Centavos
Approx. 23.00 Pesos = US \$1.00

National holiday: September 16,
Independence Day



Mexico's Economy: 1980



Mexico's economy should register at least an 8.5% real growth in 1980, according to the latest forecast of the Economic Studies Center of the Private Sector (CEESP), which adds that the real GDP increase could be as high as 10%. This rate of growth (8.5 to 10%) could be sustained on an annual basis during the decade, it was stated.

On a less optimistic note, however, the CEEPS study forecast a rate of retail inflation of 25% in 1980 as compared with a predicted 19% increase in 1979.

In other areas of the study, the CEEPS expects the following economic ratios for 1980 (predicted year-end 1979 ratios are in parenthesis): net expenditures to GDP, 35.0% (35.8%), net income to GDP, 30.0% (29.5%), and the net governmental deficit to GDP, 5.0% (6.3%). It also forecasts a further increase of 27-28% in the basic M1 money supply in 1980. In the first nine months of 1979, according to official figures, the increase in the money supply was close to 35%.

Meanwhile, according to a recently released companion CEEPS study, the

net earnings to sales ratio for private sector companies in 1979 should average 7.1%, meaning a return to the average earnings level of 1974.

That study, in forecasting the 7.1% net earnings to sales ratio for 1979, noted that the figure compares favorably with the ratios of recent years, which according to CEEPS were as follows: 1974 (7.2%), 1975 (5.6%), 1976 (2.5%), 1977 (4.7%) and 1978 (6.1%).

The improvement, the study said, has been directly reflected in increases in private sector employment in Mexico. CEEPS forecasts a net increase of 420,000 private sector jobs for 1979 as compared with increases of 112,000 and 336,000 in 1977 and 1978 respectively.

Investments in Mexico

Also of significance in the report was the upward revision of capital expenditures projection for Mexico for 1979, from an original \$503 million to the adjusted \$569 million, an increase of \$66 million (13.1%), including reinvestment.

If that \$569 million figure is reached, it

would represent a 64.0% greater level of capital expenditures in 1979 than in 1978, when in turn the increase was as much more modest 2.3%.

In a directly related area, it has been charged that Mexico's current legislation has discouraged foreign investment and as a consequence the jobs that it brings. According to representatives of the Mexican Financial Executives Institute, "Using capital for Mexicanization (turning foreign-owned firms into majority Mexican-owned firms) does not produce jobs." This observation was made by members of a special panel on developing employment in Mexico at the recent national convention of the Financial Executives Institute (IMEF). Laws requiring foreign companies to sell majority interest in their Mexican affiliates to Mexican nationals benefit a very small segment of society—those that buy the interest, said panel member Carlos Machorro, director general of Gates Rubber de México, S.A. Such laws make little difference in the plight of the jobless, he said.

Panel members also took issue with comments by government officials that "Mexicanization" via the local stock exchange is not acceptable because it leaves control in the hands of foreigners.

"It is difficult to conceive that a foreign investor will take the initiative of bringing capital, technology and brand names and offer it to local investors, along with the administration of the firm and expect an attractive return," stated the panel report.

"To the degree that foreign investment feels its decision-making power is practically non-existent, our legislation seems

(continued on page 4M)

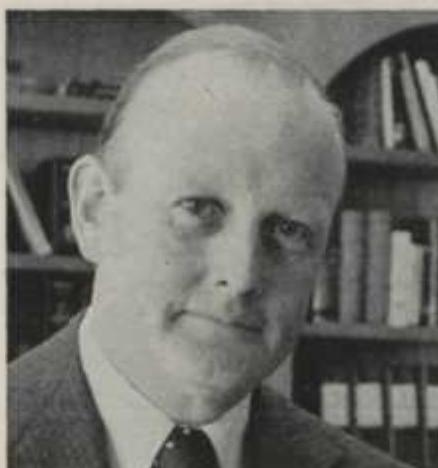
Effective Leadership Plus Petroleum: The Foundation for 1980

The key to Mexico's swift economic recovery from the crisis of 1976 is not only the nation's vast energy resources, but "confidence" in the ability of its leaders to take maximum advantage of those resources.

This nationwide "confidence" is a result of sound domestic economic policies, combined with imaginative and painstaking planning, for integrated industrial development. It is evident in the unprecedented rate of foreign investments in 1979, as well as the sharp upturn in domestic investments and production.

The reasons for Mexico's dramatic comeback, following the trauma of devaluation, are both tangible and intangible. They include:

- The López Portillo Administration's ability to instill confidence in the nation's



Jorge Sanchez-DeVanney

President

AMERICAN CHAMBER OF
COMMERCE OF MEXICO, A.C.

political and economic stability, and in its potential for investment opportunities.

- The ability of the Administration to keep the "floating" peso steady against the U.S. dollar.
- The impact of massive oil reserves, totaling more than 200 billion barrels in late 1979, and significant increases in crude oil production and exports.
- The Administration's determination to permit the Mexican private sector to play a stronger role in new investments and job creation under the Alliance for Production concept and the National Industrial Development Plan.

With its energy resources as a solid collateral for development, Mexico's economic prospects are bright and the opportunities for productive investments are ever-expanding.

(continued from page 3M)

rigid and puts us at a disadvantage in the direct capital investment market. Realistically, we must accept that it is unlikely that Mexican investors would accept the same conditions to invest abroad".

Current plans by majority-owned foreign affiliates of U.S. companies operating in Mexico call for capital expenditures totalling a record \$770 million in 1980, according to the latest U.S. Department of Commerce survey. This would represent an increase of 35.4% from the \$569 million total now projected for 1979 as a result of this survey, and also would represent 1.8% of all capital expenditures planned abroad by these companies in 1980 (1.5% in 1979).

The Department of Commerce study, published in "Survey of Current Business", covers planned gross expenditures by majority owned foreign affiliates of U.S. companies that are made to acquire, add to or improve property, plant and equipment, and which are charged to capital accounts. On an overall basis, noted the survey, these firms plan to increase capital expenditures by 15% in 1980, to almost \$43 billion, as compared with increases of 12% in 1978 and 22% (planned) in 1979.

As concerns capital expenditure plans in Mexico, the Department of Commerce statistics are as follows:

	1978	1979	1980
TOTAL	347	569	770
Manufacturing	276	500	661
Food products	52	75	94
Paper	27	26	30
Chemicals	59	96	101
Tire and rubber	8	14	34
Fabricated metals	22	49	36
Machinery, exc.			
electrical	60	80	97
Electrical machinery	8	9	15
Transport equipment	31	120	200
Other	9	21	55
Mining, smelting	4	6	9
Petroleum	1	1	1
Retail trade	41	35	59
Other sectors	24	27	39
TOTAL/GLOBAL TOTAL			
RATIO	1.1%	1.5%	1.8%

In addition, IMEF panel members said that it is unfair to impose laws retroactively on firms that entered Mexico under considerably different terms.

Foreign investment presently accounts for about five percent of total investment in Mexico, according to government statistics. That amount — slightly over \$6 billion — equals about 20% of the 1978 foreign debt, the panel observed. Direct foreign investment and the jobs that it brings, said representatives on the IMEF panel, is undeniably preferable to an increasing foreign debt.

Eight examples of industrial investments in Mexico demonstrate both their varieties and contrasts within today's active economy:

1. Vehiculos Automotores, S.A. de C.V., manufacturers of Rambler and Jeep autos, announced their 1980-81 new investment plans amounting to \$21.9 million. Also announced were plans for a public stock offering via the Mexican Stock Exchange and the possibility of manufacturing diesel motors. Of the \$21.9 million investment, some \$15.3 million has been earmarked for a new foundry, which will have an annual capacity of 12,000 tons. To be located in the Lerma industrial zone, it should be operational by 1981, company officials said. In 1980, VAM plans to produce 30,000 Rambler and Jeep vehicles, an increase of 6,000 units from the 1979 production total. Not immediately announced was the percentage of VAM shares to be offered via the Stock Exchange. (continued on page 6M)

A Mutual Need for "GEOPOLITICS"

Under her most inspiring leadership in recent times, Mexico successfully pursues her self-fulfilling prophecy of growth and prosperity.

Solid guidelines plus oil, plus new investments, have meant a strong Mexican economy. Industrial production has increased while unemployment has decreased in all major metropolitan areas.

Mexico's "neighborliness" will become increasingly important to the U.S.A. and if people and corporations in the U.S. wish to affect political and social values in countries like Mexico, you have no choice but to participate more constructively than in the past, in the process of economic development.



Gunther H. Muller
President
ALFA INDUSTRIES—ELECTRONICS & CONSUMER GOODS SECTOR

However, to pressure Mexico for more oil is both shortsighted and self-defeating. Also to continue furthering a branch economy south of the border is to nurture a "dependent" economy and dim Mexico's chances of self-sufficiency.

The U.S. would support its own interest and Mexico's also, if you acknowledged the need to help Mexico attain a self-sufficient economy. Good sense and a bit of geopolitical economy might do it.

Mexico's 1980 Economic Policy Goals

By Minister David Ibarra Muñoz
Secretary of Finance and Public Credit

A 1980 Forecast and 1979 Review of Economic Developments

A series of significant economic, fiscal and tax measures in 1980, designed to curb inflation, boost economic growth, and create new jobs, has been recommended by the Government to the Mexican Chamber of Deputies for approval.

These measures, it is also felt, will help decentralize investments, increase productivity, result in a fairer distribution of revenues, and improve our country's competitive position abroad.

In order to achieve these goals we have asked the Chamber of Deputies to:

- Cut taxes again for those in the lower income brackets. While this would reduce revenues by \$434 million it would decrease the tax burden by up to 30 percent.
- Establish an economic growth rate goal of 7.5 to 8 percent, with the provision that this economic stimulus be used as a lever for further industrialization and not as a way of exporting prosperity.
- Limit foreign indebtedness to \$3.4 billion which would be sufficient to cover the anticipated balance of payments deficit.
- Set a public sector budget deficit of \$7.9 billion, representing 5.4 percent of the gross national product.
- Abrogate the tax on the lease and sale of real estate and enact in its stead, a new tax with a single 10 percent rate, allowing a deduction of 10 times the minimum wage for the Federal District in order that housing for the needy be exempted, and to benefit social groups of medium earnings.
- Amend the Aggregate Value Tax Law in order to lower the indirect tax on certain consumer goods.
- Adjust the rates of services relative to the lowering of taxes on tobacco, gasoline, refreshments, and electricity so that there will be no increase in the prices of the products as a result of enactment of the Aggregate Value Tax.
- Create a Bank of Fishery.
- Require national financial institutions to give financial and technical assistance to cooperatives.
- Renovate railroads, purchase transportation equipment, and extend the national network of warehouses and port facilities.

Goal is to End Inflation

Our financial strategy in 1980 is to eradicate inflation and achieve economic growth. Consequently, investments will be oriented in such a fashion as to facilitate the harmonious development of the Gross National Product.

As far as tax reforms are concerned, more than two thirds of all food products will be exempt, wholly or in part, from the Aggregate Value Tax. Agriculture, cattle breeding and fishing are entirely exempt, as are home building and medical, educational, and welfare services.

Only speculation, wrongdoing or the search of excuses to avoid the minimal responsibilities



of community life could produce over-the-board price increases through the Aggregate Value Tax.

The Federal Executive Power will maintain, with no variations, the net amount of revenues to be obtained through 1980—for a total of \$3.4 billion. Of this amount, \$2.05 billion will be applied to budget appropriations and \$1.35 billion will cover other expenses of the public sector, including financial intermediation.

Anticipated Expansion

We believe that the anticipated rhythm of economic expansion is compatible with the goal of: correcting structural unemployment, increasing payments to the labor sector, allowing the relief of new investments, intensifying programs of special personal training, avoiding imbalances between the real supply and demand, helping maintain a favorable climate for investments, and generating national savings.

The 1980 budget deficit is set at \$7.9 billion, comprising \$2.03 billion of net external indebtedness and \$5.9 billion of net internal credit.

With no intention of silencing or dodging unifications, Mexican economic life advances, solves difficulties and creates new problems, as always happens in the rising march of nations.

Prosperity and development, paradoxically, multiply those unifications because there is greater possibility to think of and state them. Because of this we face the coexistence of two confronting times: one time in which there is a centuries-long piling of wrongs and needs; other time, very short, in which we feel the social impatience of redressing such wrongs and needs.

In 1979, the deficit of the national government in Mexico approached \$6.73 billion, but the GNP increased about 7.5 percent, which was an improvement over the expected growth rate of only 6.5 percent.

Inflation continued to be a problem, however, with price increases running about 19 percent. The behavior of international markets accounted for three points of Mexico's inflationary process.

There were encouraging landmarks last year in that the public and private sectors together boosted their investments by 16 percent in real values. Growth of the industrial sectors fell between nine and 10 percent.

Both under-employment and unemployment decreased in 1979. Jobs are now available and there is access to social systems which improve the standards of living.

Because of delayed rainfalls and early frosts in north-central Mexico last year, it will be necessary to step up grain imports significantly.

Special studies underway are expected to help solve the railroad problem. Expenditures have been approved for buying more moving equipment and to correct curves and slopes at points along the rail system.

Gross revenues of the federal government in 1979 are expected to round out at about \$16.73 billion—a 29 percent jump over 1978. This is in addition to the \$18.91 billion in revenues generated by government organisms and corporations. Since the total net public outlays came to \$42.39 billion, the budget deficit reached \$6.73 billion.

A \$400 million increase of net indebtedness in the public sector was caused by these factors: differences between purchases and sales abroad, structural differences not yet corrected, and the impact of the internal economic boom, compounded by the depression of the international economy. Still, there was a reduction in the rate of increase of both the foreign debt and the deficit of government enterprises which are the basic cause of disequilibrium in public expenses. An across-the-board increase in prices and rates has been proposed.

Revenues for exports, tourism, and border traffic rose 43 percent over 1978, while the exit of foreign currencies jumped by 40.5 percent.

Impact of U.S. Economy

Problems faced by the United States economy, where our trade is mainly concentrated, and the worldwide increase in interest rates, are the main factors that damper hopes for reducing our own inflationary pressures.

While it is convenient to evaluate the responsiveness of the productive system in the short term, we must look at the long term and prevent any unnecessary acceleration of both public and private spending that would surely result in higher prices at home and step up foreign purchases. There is a point beyond which it is dangerous to export prosperity and import inflation.

The growth of the industrial sector has been higher than expected in petroleum, construction, petrochemicals, and electric power generation. In manufacturing, the largest increases have been in capital goods, consumer products, and certain non-durable consumer goods.

Our principal aim now is to increase the national product and to foster economic decentralization.

In spite of serious problems that plague agriculture, its foreign balance of payments will contribute \$550 million. There remains a need for investments and basic research in this area and for restructuring the guaranteed prices and subsidies to the consumers. □

(continued from page 4M)

2. Industrias Químicas de México, S.A., which operates several plants in the country which produce diverse basic chemicals, has joined forces with Cia. Minera Las Cuevas, S. A., to form a new company for producing and exporting metallurgical-grade hydrofluoric acid. The new company, Fluorex, S. A., will be located at Ciudad Juárez, Chih. and will have an annual production capacity of 15,000 metric tons. All of the plant's output will be exported to the U.S. Some \$3.3 million is to be invested in the Juárez project, which should be operational by late 1980. Minera Las Cuevas, which has its mining properties in the state of San Luis Potosí, is one of Mexico's largest fluorspar mining companies.

3. Cia. Industrial de San Cristóbal, which is associated with Scott Paper Co., will use the funds to help finance expansion at its Ecatepec paper producing complex in Mexico State. The company has plans to increase annual production capacity at Ecatepec by 31,000 metric tons, as of 1981.

4. Officials of the Frisco mining group have announced plans to invest close to 540 million pesos in the first phase of a new molybdenum mining project near Cumpas, Sonora in northwestern Mexico.

This will represent the first major commercial mining operation for molybdenum in Mexico, production of which has been at best, marginal in recent years. As a result, almost all of Mexico's requirements of this mineral have been imported up to now. Plans call for processing 2,480 metric tons per day of molybdenum mineral once operations begin, probably in late 1980.

5. The International Finance Corporation has approved a \$25 million medium-term loan to Industrias Resistol, S. A., to help finance equipment purchases for Resistol's projected new plant for producing wood particleboard and related products. The credit from the IFC, which is an agency of the World Bank, was granted on a package basis with three U.S. commercial banks: Bank of America, Mellon Bank and Citibank. Resistol plans to invest \$45 million in the new plant, to be located at Zitacuraro, Michoacan. The plant, when operational, will have an annual production capacity of 104,000 cubic meters of particleboard and also will produce wood panels and sheets as well as formaldehyde.

6. Officials of Industrial Minera Mexico, S. A., one of the country's major mining-metallurgy companies, have announced a series of new mining projects, involving a total investment of \$86 million dollars. The new projects include: (1) expansion of IMMSA's major mining unit at Santa Barbara, Chihuahua, enabling it to double mineral processing capacity to 5,000 tons per day, (2) a new minerals processing plant at Velardeña, Durango, with an initial capacity of 500 tons/day, (3)

expansion of the major Taxco, Gro., unit, resulting in an increase in mineral (primarily silver ore) processing capacity from 2,200 tons daily to 3,400, and (4) expansion of the Rosario, Sinaloa mining unit, allowing for production of 700 tons per day of lead-silver and zinc-silver concentrate.

7. Melco de México, S. A., an affiliate of Japan's Mitsubishi Electric Co., has officially inaugurated its new plant at San Juan del Río, Querétaro for manufacturing railway traction equipment and controls as well as elevators. The new plant, which will employ 300 persons, represents an initial investment of close to \$4.4 million. Meanwhile, officials of Sperry Rand Mexicana, S. A. de C. V., have announced plans to invest close to \$17.5 million in a new plant at San Juan del Río for producing hydraulic equipment and industrial pumps. Construction on that facility is due to begin by year's end.

8. Production of ingot steel in Mexico totalled 5.33 million tons in the first nine months of 1979, an increase of 6.2% over production of 5.02 million in the January-September 1978 period. It has been announced by the National Iron and Steel Industry Chamber. The Chamber also reported that in the first nine months of the year, combined production of flat and rolled laminated steel products in Mexico was 4.19 million tons, up 10.0% from the 3.81 million ton total recorded in the comparison 1978 period, despite declines in domestic production of seamless steel tubing and tinplate of 3.8% and 3.1% respectively. Meanwhile, the National Cement Industry Chamber has reported

Our Second Invitation to Participate in Mexico's Economy

Pursuant to last February's commentary titled "Mexico: At the Threshold of her Vast Potential," I'm very pleased to report that Mexico is continuing to develop her many resources in a very dynamic manner.

The opportunities for investments in a variety of industries are quite extensive and political and the economic stability of the country insures a very prosperous future for business and industry in general.

For the manufacturers of heavy equipment and high technological instruments for use in Mexico, there exists opportunities to export their products to other countries. Foreign



Burton E. Grossman
Chairman of the Board
and Chief Executive Officer
BANCO CONTINENTAL, S.A.

Investors have a large and varied number of investment possibilities in Mexico. The Mexican investment laws are very clear and easily understood.

The 50-year political stability of Mexico guarantees that investments in our country will be protected, encouraged, and respected.

Consequently, Grupo Continental, S.A. and Banco Continental, S.A., our multibanking institution, are continuing to invest very heavily in the expansion of our business interest. We welcome the participation of foreign investment in the future prosperity of our country.

that in the January-September 1979 period, production of cement in Mexico was 11.06 million tons, as compared with 10.43 million one year-earlier, an increase of 6.0%. At the same time, the Mexican Automotive Industry Association (AMIA) announced that through September, domestic sales of new automobiles totalled 188,981 units, whereas sales of new trucks (all categories) amounted to 118,361 units. This represented increases of 16.9% and 21.4% respectively over unit sales in the first nine months of 1978.

New Investment Incentives

New incentives, including financing preference and guaranteed purchases, should be offered to companies working to meet national development goals, ac-

cording to the president of the National Manufacturers Federation. Tax incentives and discounts on electricity and petrochemicals would be more attractive if combined with additional incentives, Ernesto Rubio del Cueto said.

"The authorities have indicated with all clarity," the CONCAMIN president added, "that in the priority sectors, the country cannot allow itself the luxury of getting behind. If the private sector does not invest and produce to meet the designated goals, the state can do it. We can take this, if you like, as an opportune warning".

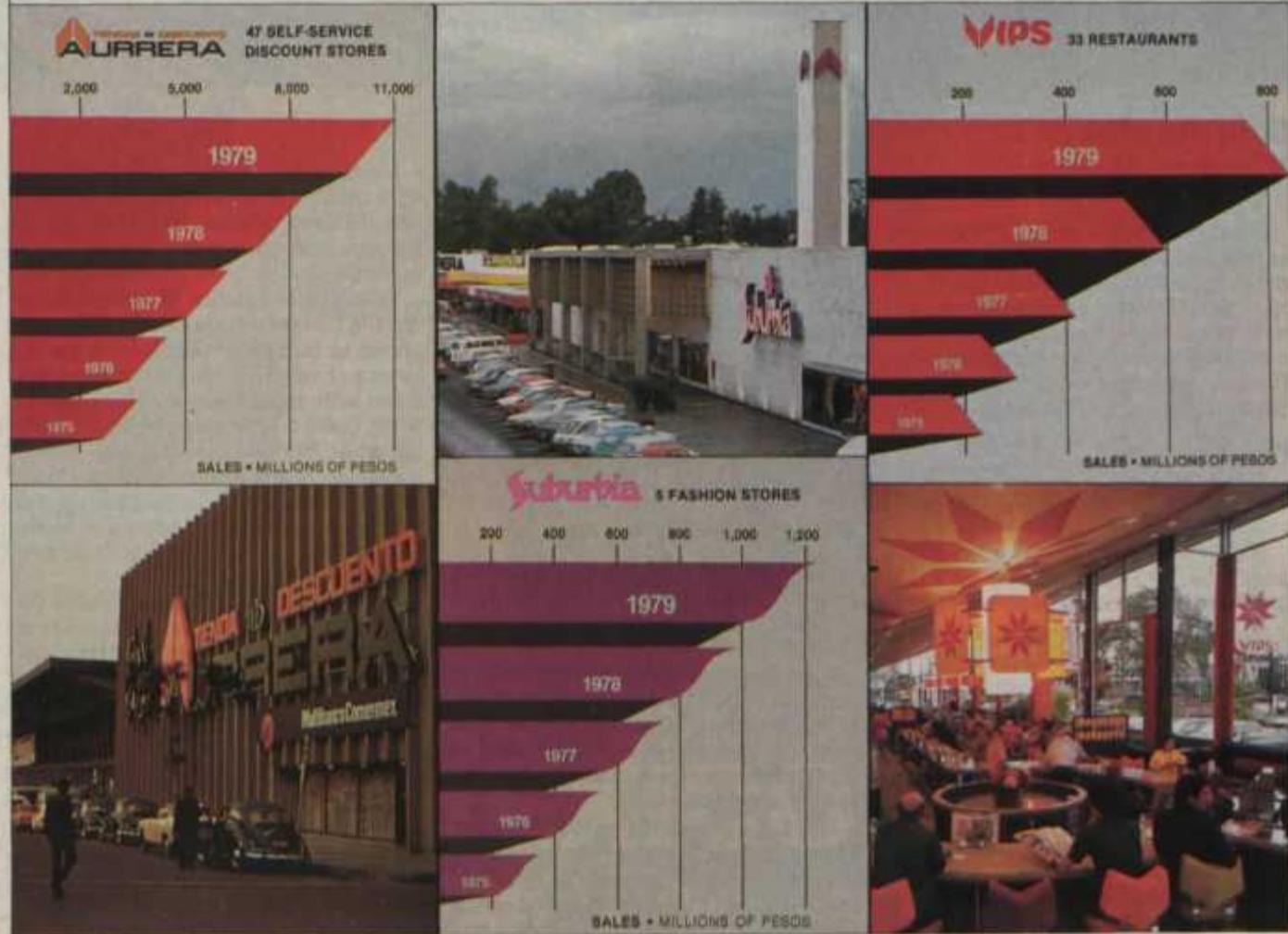
He commented that such broad public sector intervention can be considered as a redefinition of the term mixed economy. "It no longer means setting aside some fields for the state and others for private

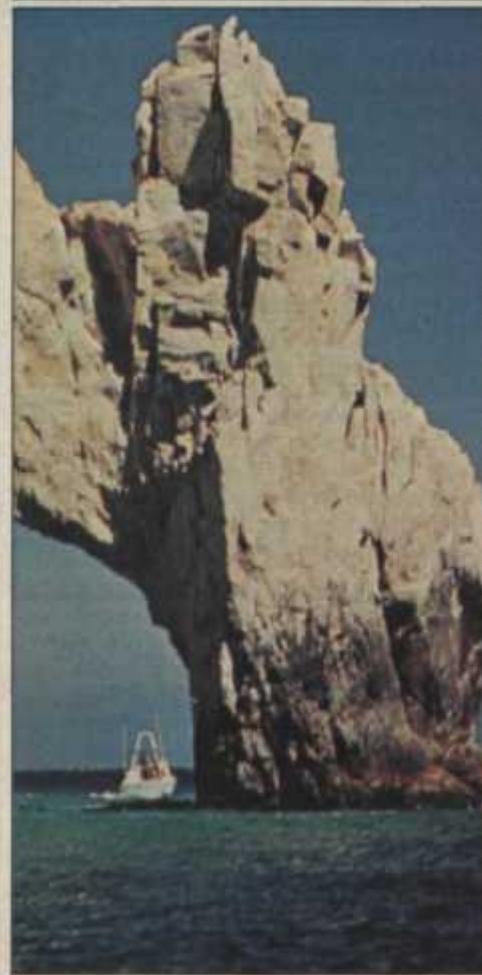
enterprise," he said. "It means setting goals. In fields that are not the exclusive province of the state, we are invited and exhorted to participate, but if we don't do it, the state itself reserves the right to fill, with parastate investment, the void that we leave."

The goals of the National Industrial Development Plan are high, and meeting them requires thorough and coordinated planning. Such planning it was emphasized would be more effective in the private sector if government purchasing plans were known.

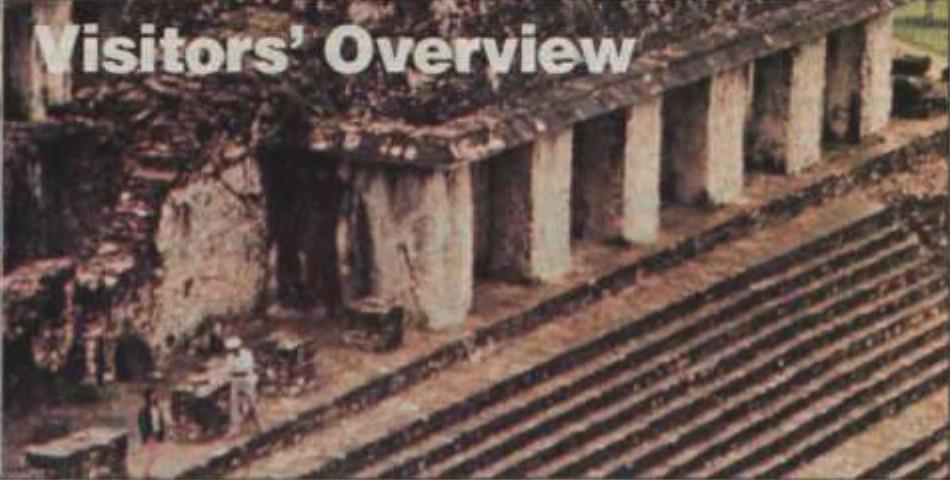
"Even knowing their requirements in advance," Rubio del Cueto said, "it is necessary to have reasonable assurance that the demand will be satisfied by new plants and not imports". □

AURRERA GROWS WITH MEXICO





Visitors' Overview



One Resident's View of Mexico

Lopez Portillo took over a very troubled nation, politically and economically speaking. Money had poured out of the country; confidence in the administration was zero; there was a tremendous credit-crunch and inflation was spiralling. The only bright spot for the future was the fact that Mexico had struck oil.

The Economy

The economy has without doubt improved dramatically.

The GNP for 1979 reveals a significant growth over 1978. It climbed by 8.8%. GNP for 1978 grew between 5 and 6%.

Some of the factors which in one way or another continue to stimulate the economy are:

1. Stability of the peso vis-à-vis the dollar;
2. Restrictions as to growth of the foreign debt;
3. Private investors renewed interest in construction and expansion;
4. Renewed banking intake which provides new credit sources;
5. And Mexico's oil windfall.

This last point, above all, gives us en-

couragement to face the future in a spirit of calm optimism.

In the last 15 years the Mexican economy has evolved at a remarkable rate—the average annual growth rate being close to 6.5% and has been stimulated in general by growth in public investments. Since 1970, this increase has been joined by a significant widening of the gap between domestic savings and investments, showing an 88% growth in the deficit in current accounts. In 1977 the deficit in current accounts was diminished 41.5%, thanks to strict control and the impact of the devaluation.

Today's Mexico

Looking at Mexico today, three years after Lopez Portillo's inauguration, a completely different picture of the country unfolds from recent years.

Lopez Portillo has done a lot of fence mending with the private sector. His sincerity, accessibility, and economic acumen, has brought back a great deal of confidence in the new administration and in the national economy.

Due to the population explosion and the social problems brought on by this explosion, plus the effect of inflation on purchasing power, the government will walk a tight rope with organized labor for the rest of its term.

Oil

Mexico's proven oil reserves stand at 45.8 billion barrels and the government has declared officially that probable reserves could be in excess of 60 billion barrels.

Without this injection of wealth that is coming from oil, Mexico would have continued to face in an acute form the dilemma of very high unemployment combined with an inflation of 25%, either of which could only be cured by aggravating the other. But with the additional foreign exchange revenue forecast by the government due to oil, a surplus in the balance of payments should be achievable by 1980, even allowing for a mild liberalization in imports.

Oil revenue will ease considerably the balance of payments pressures which have restrained the investment in competitive manufacturing industries which are vital to Mexico. Imports have tended to grow faster than exports as the population has become more urbanized and this increase has also preempted more and more exportable natural resources, such as agricultural produce. At the same time much of the Mexican manufacturing industry still imports more in both capital and intermediate goods than it exports. Here again oil revenue will help break the

(continued on page 12M)

The sound of Mexico is everywhere.

And it's the sound of the magnificent past.

There you are in your horse-drawn calesa... serenaded by harness bells... riding by Merida's lovely old churches and mansions. There you are at the gateway to the Yucatan. So close to the ancient world of the Maya and the dazzling resort world of the Mexican Caribbean.

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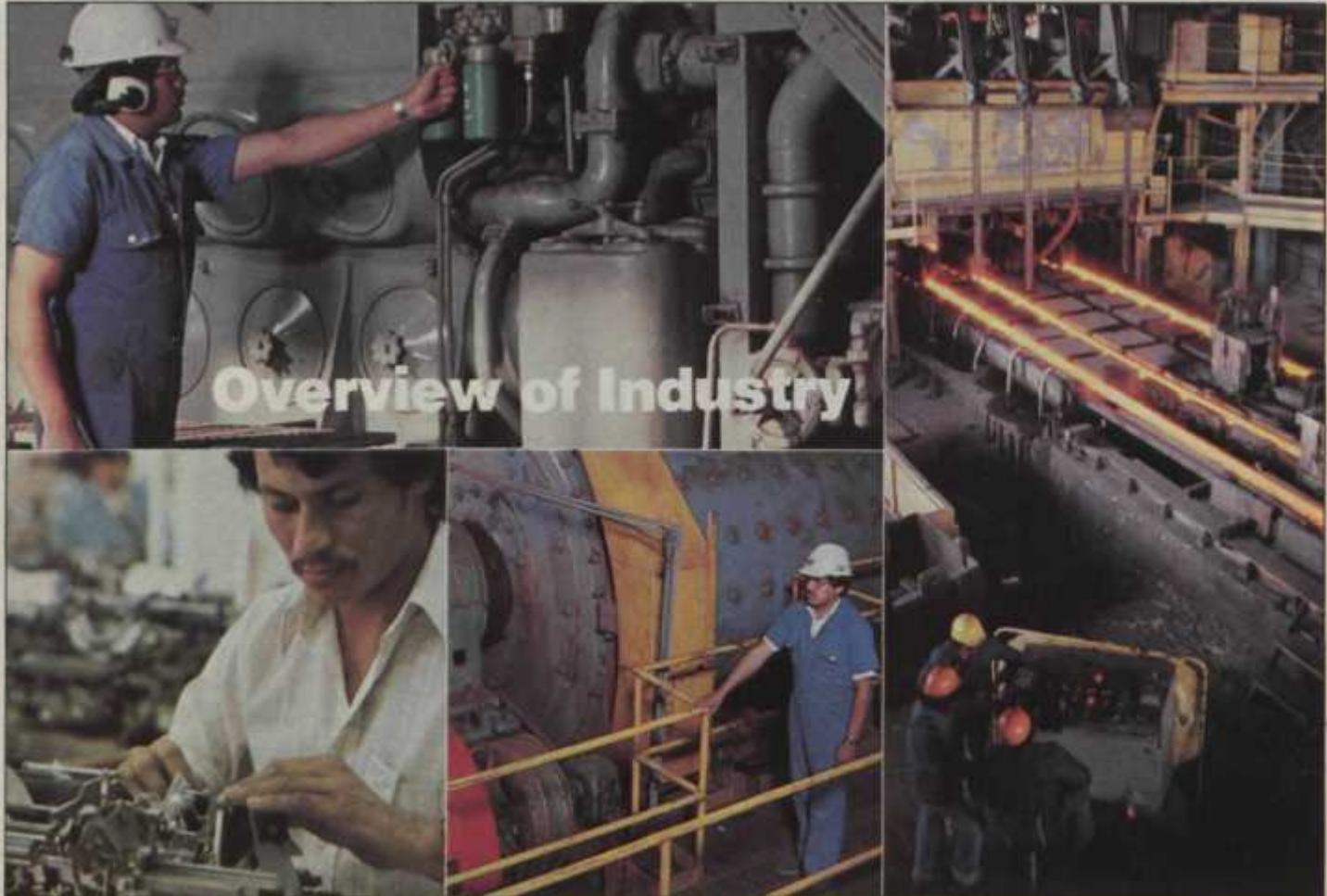
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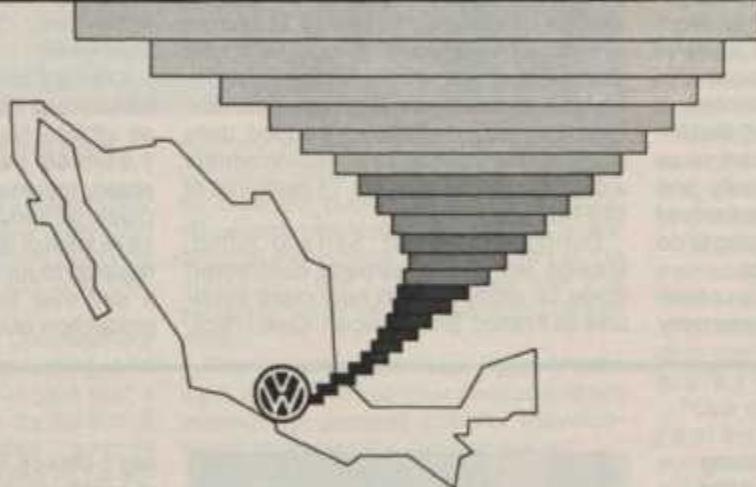
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MEXICO

Update 1980

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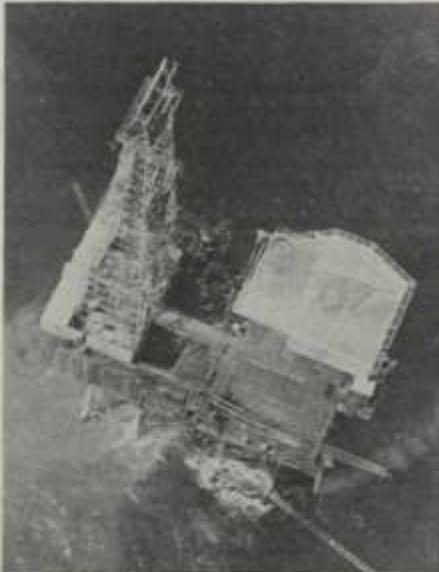
vicious circle in which investment goods must first be imported in order to produce exportable manufactured goods to earn the foreign exchange to pay for necessary imports.

President Lopez Portillo's medium term objectives of reducing inflation, alleviating unemployment and acting on the payments deficits over the next two years, appear far more attainable now than they would have seemed three years earlier with a more extended time horizon.

There can be no denying the multiple benefits of a heavy flow of petrodollars into Mexico and its ability to strengthen the peso and stimulate high economic growth, investment opportunities and a period of rapid expansion for business generally. But the core of the matter is whether the government can meet the challenge of providing efficient management to spend such rich funds from abroad so that high inflation and wasteful spending are avoided while a successful development strategy is implemented.

The problem of how to spend the billions of dollars of petroleum income so as to develop the economy efficiently and provide more jobs and higher standards of living is far more pleasant than trying to do this without such financial power.

Fortunately, Mexico has a semi-industrialized, highly diversified economy



with wide infrastructure capable of efficiently absorbing the billions of dollars of expected oil revenues. □

Petroleum Exports

Petroleos Mexicanos, the government oil agency, is in no position to increase its exports of crude oil to any of its current clients, since production is totally sold through the end of 1980, according to PEMEX director general Jorge Diaz Serrano. By year's end 1980, he added, daily crude output will reach 2.25 million barrels a day, as compared with 1.71 million as of mid-November 1979.

During 1980, Diaz Serrano noted, Mexico will begin already contracted crude oil sales to such new client countries as France, Brazil, Japan, Costa Rica,

and Spain. The PEMEX official went on to say that Mexico will abide by its delivery and price contracts, and will not get involved in crude oil spot market sales. By late 1980, PEMEX expects to be exporting 1.3 million barrels a day of crude, versus a projected year-end 1979 average of 780,000.

Within that total, exports to the U.S. are expected to be 780,000 barrels, versus 660,000 as of November. PEMEX as of late 1979 was selling crude to 17 U.S. companies. In 1979 incidentally, 8.7% of all U.S. crude oil imports will come from Mexico, as compared with just 1.7% in 1975 and 5.1% in 1978. This participation could well pass 10% in 1980, if PEMEX is able to meet its projected exports schedule for the year.

Despite the Diaz Serrano comments as to oil export limitations, it was announced several days later that as of 1980, Mexico will begin exporting crude to Yugoslavia. Initial exports will average 3,000 barrels a day.

Officials of PEMEX have announced meanwhile that in the January-September 1979 period, production of crude oil and natural gas were up 23.1% and 19.1% respectively over the same period one year earlier.

Officials of Petroleos Mexicanos also announced that daily crude oil production as of late November reached a record 1,817,000 barrels. That figure, it was noted, represents a doubling of Mexico's crude oil production from its November 1976 level of 907,000 barrels a day. It also represents an increase of 110,000 barrels a day over the average PEMEX crude production of one month. □

Why Mexico?

Thirty years in Mexico, witnessing three decades of social, industrial and economic development, explains why investors, businessmen and manufacturers from the advanced countries of the U.S.A., Germany, Japan, Italy, United Kingdom, France, and others, are participating and contributing financially and technologically to the rapid growth of this country, which has become a model of social stability for the entire world.

The history of Olivetti in Mexico is indeed one of many examples of how this market, which in 1950 had scarcely 25.7 million inhabitants and now, thirty years later, has an estimated 80 million—has grown, thanks to the institutional structure established by the Mexican Revolution more than 50 years ago.

After numerous efforts to develop its own industry and export capability, to-



Enrico Pozzo
General Director
OLIVETTI MEXICANA, S.A.

day's Mexico is in the midst of a process of accelerated development as an international power in the field of energy resources, with verified oil reserves that allow planning for the years ahead with optimism and self-assurance.

This impressive economy has been secured and is in a stage of vigorous growth, thanks to the social and humane conscience of President José Lopez Portillo, the guiding voice of this country, who has called all factors of production . . . investors, industrialists, businessmen, workers and public officials . . . to a great Alliance for Production, based on programs with short and long-term goals. This alliance will make a more harmonious, just and stable life for this great and proud people, heirs to the noble Aztecs, who now enjoy an enviable position among the community of nations.

José López Portillo
PRESIDENT OF MEXICO

"We are growing economically four times faster than in 1976, and with this we have recovered and recently surpassed our traditional rhythm of development."



Two 1980 Programs

The Mexico government by March 1980 will officially unveil two major new programs: the Global Development Plan and the National Food Production and Distribution System.

In announcing the Global Development Plan, Secretary of Programming and Budget Miguel De la Madrid said that a major element will call for a duplication of Mexico's current productive capacity within seven years. Scheduled to be announced in detail by March, the Plan—reportedly 270 pages long—will be obligatory for the public sector and "indicative" for the private sector, according to de LaMadrid.

Its basic goals, many of which parallel those of the already announced National Urban Development Plan and the National Industrial Development Plan, will include: employment and minimum social welfare guarantees, a high and sustained level of economic growth and a more adequate distribution of national income.

De la Madrid said the new plan (of which few specifics were immediately detailed) must be "fully participative" to be successful. He added that success will require maximum savings-investment ratios.

In commenting on the Global Development Plan, the president of the Businessmen's Coordinating Council (CCE),

Prudencio López, said that integrated economic planning should be obligatory for both the public and private sectors. "Businessmen view this as a first major effort at the integral rationalization of the economy". But López added that this planning "must be congruent and democratic".

The Development Plan, De la Madrid said, will be in three-year phases and will attempt "to present optional (development) strategies for decision-taking".

Shortly thereafter, at a meeting attended by President José López Portillo, it was announced that the government will put into effect a new program involving all public sector agencies to promote an efficient production and distribution of basic foodstuffs.

The program—under study for the past three years—will cover at least 20 basic food products, according to José Antonio Ugarte of the Office of the Presidency.

He added that the system represents a fundamental government effort to instrument an integral food sector policy. This is becoming increasingly necessary, Ugarte said, because of urgent pressures to increase farm production and make distribution of that output more efficient.

The Presidency official commented that at present 24% of Mexico's population does not get the minimal subsistence food requirements as defined by the U.N. Food and Agricultural Organization.

Record-Breaking 1980 Budget

Deputies received a record 1.68-trillion-peso 1980 budget that Planning and Budget Secretary Miguel de la Madrid said "reduces the tendency in the increase of the public debt."

In addition, De la Madrid told the members of the lower house, the 1980 budget redirects spending from oil production to agriculture, infrastructure and social services.

Projected 1980 expenditures will be 29 per cent higher than the most recent spending estimates for 1979.

The 1.68 trillion pesos the government intends to spend compares to 1.2 trillion pesos that Finance Secretary, David Ibarra Muñoz told the deputies earlier that it can expect as income.

The difference—465.7 billion pesos—includes payments on old debts and other payments still in process. New debt, said De la Madrid, will total 181.8 billion pesos—13 per cent of the budget.

Mexico will be able to finance 74 per cent of that domestically, said De la Madrid, and will depend on foreign sources for the balance.

"Service on the debt," he said, "will be maintained in absolute terms at the same level as in 1979."

In money terms, the public debt will drop two billion pesos, from 377.7 billion to 375.7 billion.

"One can conclude," said De la Madrid, "that the 1980 budget is solidly based on economic reality and the capacity of our society to generate financial resources that will allow it to be covered sanely, through taxes as well as income from the goods and services that the public sector produces and contracting domestic and foreign credit, within our ability to repay. This budget is based on 87 per cent of our own resources and reduces the tendency in the increase of the public debt."

Because Petróleos Mexicanos expects to reach a production level in 1980 of 2.25 million barrels daily—a goal set for 1982—the government will be able to divert resources from oil production to other priority areas, said De la Madrid.

"Among the most important economic policy decisions in the budget," he said, "is the reorientation of public spending through a relative reduction in the rate of the growth of investment in the oil industry in order to channel the resources thus

(continued on page 14M)

(continued from page 13M)

freed to the new budget's priorities."

By the end of 1979, Pemex is expected to have spent 289.8 billion pesos—22.16 per cent of an anticipated total federal expenditure of 1.3 trillion pesos.

For 1980, 399.5 billion pesos—23.7 per cent of the total budget—is set aside for the state oil monopoly. Pemex expenditures for 1980 will be 37.8 per cent higher than 1979 spending.

New priorities—agriculture, communications and transportation, trade, social services and three special funds will receive a total of 587.7 billion pesos: 34.8 per cent of the budget. They are expected to have spent 457 billion pesos by the end of this year, 34.9 per cent of total spending.

Their accumulated increase is 28.6 per cent, slightly below the budget average.

Although receiving the largest budget chunk—282.5 billion pesos—of any priority area, social welfare received the smallest percentage increase compared to last year—22.8 per cent. Funds will go to work projects, health, social security and education, according to the budget summary.

The largest percentage increase (36.5) will go to three special funds—Public Investment in Rural Development Program (PIDER), Federal-State Coordinat-



ing Convention (CUC) and National Coordinating Plan for Deprived Zones (COPLAMAR)—whose total budget is 21.7 billion pesos.

Agriculture and fisheries will receive 123.9 billion pesos, a 36 per cent increase compared to last year. Of that, 74.7 billion will go to investments and the rest to current accounts.

Most of the funds will be directed through the Agriculture and Hydraulic Resources and Agricultural Reform secretariats, the Fisheries Department and various special funds and banks.

Special emphasis will be placed on farming in temperate climate zones.

Communications and transportation

has 97.1 billion pesos—a 31.9 per cent hike—earmarked to help it unclog the bottlenecks that have plagued industrial development.

Commerce will receive 62.5 billion pesos, up 35.1 per cent. Most of it is directed at supplying basic commodities.

Although officially removed from the priorities list, industry will receive 355.3 billion pesos (a 26.3 per cent increase), most of it through state-owned companies.

The large percentage increase assigned government branches—71.4 per cent to 2.4 billion pesos—is largely because of the decision to increase the number of deputies from 185 to 400. □

Sabritas' Twelve Years of Success In Mexico

Sabritas, S.A. de C.V. echoes the realities expressed in NATION'S BUSINESS last February by C.R. Albright, President of Pepsi-Cola Mexicana, S.A.

When Pepsi-Cola decided to enter the Mexican snack market twelve years ago, no one could have envisioned the success of the newly formed Sabritas Snack operation.

In the years that followed, Sabritas was characterized by an unprecedented growth, which for 1979, earned a place among Mexico's top 100 companies. The hard work that made this achievement possible was complemented by favorable conditions offered within the Mexican market which are essential to any successful investment venture: a stable government; a capable work force and expanding economy; and a positive attitude toward foreign investments.



John A. Warner
President
SABRITAS, S.A. De E.V.

compatible with the country's development priorities.

These important factors provided a solid framework for Sabritas' success, and we have responded by trying to align our goals with those government priorities related to our own areas of expertise. In this endeavor, we have developed various strains of high-yield potato seeds, which are disease-resistant and have significantly bolstered Mexico's potato productivity. A similar Sabritas development program is underway for corn, as well a special scholarship program aimed at furthering the education of promising young Mexicans.

For Mexico, the decade of the 1980s is most promising, and as the government's goals are met, we are confident that our future success will depend on how well we coordinate our own goals with those of Mexico.

AS MEXICANS SEE IT...

More than 100 Mexican leaders—all private businessmen—were interviewed during the preparation of both the February 1979 and January 1980 special features. Here are some pertinent comments from these off-the-record interviews.

U.S. INVESTORS-INDUSTRIALISTS

"We require your industrialists and their technology in today's Mexico, and our government recognizes this need. Therefore, since our economic recovery, why have so few of your industrialists explored our dynamic market?"

"The 'Berlin-Tokyo axis' vis-à-vis industrial investments has been successfully reestablished in your largest Latin American market (Brazil) and the 'axis' is now moving strongly into your second largest and most convenient market—Mexico. Your U.S. Chamber members should know that the investment opportunities in Mexico are being rapidly taken by their strongest international competitors."

"It seems very strange to us that so few United States industries, excluding the multinationals, appear to know much about Mexico's recuperation and related opportunities. Their demonstrated ignorance of today's economic realities in Mexico means that both they and Mexico continue to lose!"

MEXICO'S DEMOCRACY

"The U.S. points of view on how Mexico's democracy should function are different from those which the Mexican people decided for themselves. Our elected president is literally a "temporary dictator" for his six-year term in office; he may ignore both the congress and the judiciary. Our system has worked in our country for more than half a century."

MEXICO'S POPULATION

"Mexico will need between five to ten years to become self-sufficient in food production. Meanwhile we depend upon imported foods."

"Mexico's population is expanding and your country is absorbing most of the annual increase. Thank God for the 'escape valve' provided by the United States!"

ACKNOWLEDGEMENTS

This 16-page advertorial is produced by Sullivan Sarria & Associates, Inc. as a follow up to the 32-page "Mexico's Economic Recovery" special feature published February 1979. Most of the editorial content is derived from MEXICO UPDATE, published monthly by the American Chamber of Commerce of Mexico. The cooperation of Am Cham's Stuart J. Barnes, Editorial Director, and John H. Christman, Director of Economic Studies and Commercial Information, is gratefully acknowledged.

INQUIRIES

Correspondence addressed to private participants may be sent to the New York office of Sullivan Sarria at 299 Park Avenue, New York, N.Y. 10017 for immediate forwarding to the correct address in Mexico. Forwarding envelopes marked "confidential" will be respected.

"Mexico's 3.8% annual population growth rate demands the creation of a minimum of 1.5 million new jobs per year; we are creating only 300,000 new jobs annually. The need, repeat, need exists for more U.S. participation and related sources of employment in the Mexican economy."

"Mexico's 1979 population of 70 million is actually expanding at the rate of 3.8 per cent per year, one of the world's fastest growth rates. Mexico's population will therefore double within 20 years. Why do so many of your medium-sized industrialists continue to ignore this growing market?"

U.S. MANAGEMENT

"Mexico shocked the industrialized countries with the speed of its economic recovery. Within two years, we terminated our slump and launched a heady recovery period which appears to have no immediate sunset. Why are you Americans so slow to join us?"

"What is wrong with your American entrepreneurs? Their competitors from Japan, Germany and France are quietly investing and reinvesting in Mexico for the medium term (i.e., five to ten years) while most of your citizens appear to be seeking only a quick return within two or three years."

"How tragic that American businessmen have lost their competitive edge over their Asian and European competitors vis-à-vis both technologically and in quality control. Do Americans believe that Mexico 'owes' them business due to tradition or habit?"

"Whenever a U.S. corporation counsel reviews Mexico's seemingly prohibitive Foreign Investment Laws, he is invariably discouraged. It is unfortunate for both the corporations and for Mexico that so few U.S. counselors go beyond the first reading."

"During the 1980s, Mexico could supply almost all U.S. petroleum imports with our 5 to 10 million b.p.d. production. And while we Mexicans strongly believe in international friendship, does your United States still hold to such traditional relationships? Your track-record vis-à-vis 'friendship' with such countries and/or their leaders as Vietnam, Taiwan, Nicaragua and Iran is hardly inspiring!"



PHOTO CREDITS

Office of the President, Cover Photo
Mexican National Tourist Council, pp. 2, 3, 15.
Government Tourism Office, pp. 2, 13.
Petrobras Mexicanas, pp. 12.
Direccion General de Informacion y
Relaciones Publicas, p. 13.
Ursula Bernath, pp. 14, 15.

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Should the Government Subsidize Gasohol?

GASOLINE and alcohol do mix, as this petroleum-short world is now learning. The question is, should they?

Evidently, a lot of legislators think so. There are now more than 50 bills in Congress providing for alcohol production subsidies of one kind or another. President Carter's energy program proposes making permanent the now temporary exemption of gasohol from the four-cents-a-gallon federal excise tax on gasoline.

But is alcohol a good fuel? And can it help to lessen the nation's dependence on imported petroleum?

There are two kinds of alcohol—ethanol and methanol.

Ethanol, familiar to millions of imbibers, is usually produced from grain. It has about two thirds the energy content of gasoline. The gasohol now available to motorists is ten percent

ethanol and 90 percent gasoline. Use of this blend is permitted under the warranties of all four major U.S. auto manufacturers.

Farmers see ethanol production as a way to put surplus grain—and perhaps even fallow land—into productive use, but there are some problems. First, the Energy Department estimates that all the cropland in the United States could produce only enough ethanol to satisfy eight percent of the nation's liquid-fuel needs.

Second, petroleum would be used in growing and processing crops for alcohol. If alcohol distilleries were also petroleum-fueled, producing ethanol might consume as much petroleum as using it saves.

Third, ethanol costs about 40 percent more than gasoline per unit of energy.

Methanol, the other type of alcohol,

can be made from natural gas, coal, or wood. And its production cost per unit of energy is only about ten percent higher than gasoline. However, it has one half the energy content of gasoline, is highly toxic, and tends to corrode plastic, rubber, and metal parts.

As an additive to gasoline, alcohol raises octane levels and can thus substitute for lead. It may be somewhat cleaner-burning than gasoline.

Foreign research indicates that present automobiles may be able to run on blends of up to 20 percent ethanol without extensive modification. A car designed for the purpose could run on pure alcohol of either type. Alcohol may also be a good stretcher for diesel, home heating, and jet fuels.

What do you think? Are alcohol production subsidies a good way to help reduce the nation's dependence on imported petroleum? □

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Is the Development Agency



It was a severe economic jolt when the Brooklyn Navy Yard closed, but an infusion of \$96 million in federal assistance from the Economic Development Administration helped to transform the idle yard into a viable industrial complex.

Despite some criticism, EDA is focusing on urban communities to spur economic growth

By John M. Eddinger

ALITTLE-KNOWN government agency tucked away in the Commerce Department may have more to say about the survival of economically depressed communities than anything else, including the basic laws of economics.

The Economic Development Administration, which began as part of President Johnson's war on poverty in 1965, was originally designed to help private

industry locate new facilities in rural areas.

Today, EDA has shifted its emphasis to urban centers, and President Carter proposes to make the agency responsible for several major community development programs.

EDA's mission is to offer direct and guaranteed loans to private industry in economically lagging areas. The primary goal is long-range economic development—to create jobs, increase incomes, and diversify local economies—not to underwrite commercial ventures.

The agency is authorized to guarantee up to 90 percent of bank loans for fixed assets or working capital. EDA also makes and guarantees loans under a trade adjustment assistance program for companies that can prove they have been hurt by foreign competition.

Congress amended EDA's authoriz-

ing legislation, the Public Works and Economic Development Act, in 1974 to help meet needs arising from actual or threatened high unemployment caused by economic dislocation. The amendments also created job opportunity programs in areas of unusually high unemployment, grants to help states establish and expand economic development, and guarantees of loans and lease payments to help businesses expand.

Splendid job

Even some fiscal conservatives in Congress are convinced that EDA has been doing a good job. Rep. Robert Roe (D-N.J.), chairman of the House Public Works and Transportation economic development subcommittee, says: "They've done a splendid job, with 99 percent of their projects highly effective."

Ready to Come of Age?



Local antipoverty groups are critical of \$55.4 million in grants to the U.S. Olympic Committee, New York State, and private industry to construct courses and facilities for the 1980 Winter Olympics in Lake Placid, N.Y.



Native Americans at the Devil's Lake Sioux Manufacturing Corp. plant at Ft. Totten, N.Dak., assemble camouflage nets for the U.S. Army. A small business success story, the plant started with a \$750,000 business development loan.

Rep. John Paul Hammerschmidt (R-Ark.), ranking minority member of the subcommittee, is impressed by the participation of local people such as mayors, businessmen, doctors, teachers, and other professionals. "At that level," he says, "it's strongly supported by the business community. If there is any federal assistance program business should be interested in, it is EDA."

Yet critics say that EDA's basic premise is inherently wrong. EDA provides subsidies for the least efficient elements in a market at the expense of those most successful in that market, they say. It perpetuates the status quo by erecting artificial barriers to the most efficient allocation of resources.

Working together

EDA counters its critics with a series of success stories throughout the United States. Robert T. Hall, assistant Commerce secretary for economic development, says these stories "clearly demonstrate that the public and private sectors can work together to meet the economic development and adjustment needs of our communities."

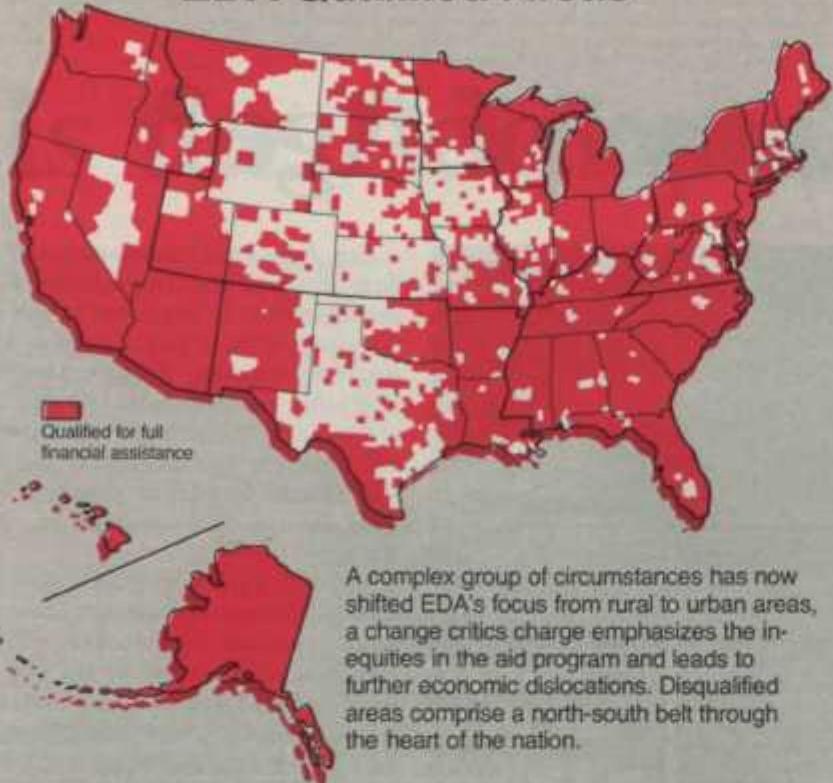
The list includes the following:

- The rusting, idle Brooklyn Navy Yard in New York City was transformed into a growing industrial complex employing nearly 6,000 workers in 37 industrial firms. The cost: \$96 million over 12 years.

According to Anne Small, head of the local employment center: "Eighty-five percent of those working in the yard live in the surrounding six communities, and 80 percent of the workers are either black or Puerto Rican. In many instances, these people could collect close to the same income from unemployment compensation, but they would rather work."

- The Devil's Lake Sioux Manufacturing Corp. in Ft. Totten, N.Dak., started with a \$750,000 business development loan. The plant, which makes camouflage items for the U.S. Army, employs more than 200 Indians and is 51 percent Indian-owned.

EDA Qualified Areas



A complex group of circumstances has now shifted EDA's focus from rural to urban areas, a change critics charge emphasizes the inequities in the aid program and leads to further economic dislocations. Disqualified areas comprise a north-south belt through the heart of the nation.

Unemployment rates of 50 to 60 percent are common in Indian communities. Carl McKay, chairman of Devil's Lake Sioux, says: "Earning money is instilling again that sense of pride that was once so common to the Sioux people."

• A Lockheed Corp. facility was established in the riot-torn Watts section of Los Angeles. EDA pumped \$3.8 million into public works grants and loans and came up with another \$3.8 million from the Office of Economic Opportunity.

"We went into Watts just as we would have gone into Burbank or Glendale," says Bill Schwentner, Lockheed's project manager in Watts. "We did not go in there for make-work on simple products. We were making sophisticated parts for the L-1011 aircraft, and we were training people for skilled jobs."

• The small town of Pryor, Okla., received \$1.4 million to construct the Mid-America Industrial District—MAID for short—an industrial park whose plants generate a local annual payroll of \$32 million.

Dwight T. Hoxie, executive director of the Pryor Area Chamber of Commerce, says: "MAID is making Pryor into a major city. The influx of working people from MAID makes the town hum. If it weren't for the industrial

park, this would be nothing more than a sleepy country town, going nowhere and not caring, either."

• The central business district of South Bend, Ind., is being revitalized through a package of funding that includes \$5 million from EDA.

Many of the area's largest employers were selling out their interests. When employees of Amsted Industries, Inc., wanted to purchase South Bend Lathe, Inc., from the parent company, "EDA's \$5 million kept 450 people from hitting the streets," says J. Richard Boulis, who left Amsted to join the new employee-owned company.

"I don't know what that would have cost," he adds, "but instead of being on the streets, we are now in our third year. As of right now, we've paid out about \$13 million in salaries and wages in this community."

Fewer horror stories

The shift of EDA from a basically rural to a heavily urban assistance agency was a conscious congressional decision.

"The change in status was an acknowledgment by Congress, not that EDA was more competent, but that it was less incompetent than other government programs," says Dean Sagar of the National Center for Community Action, an information and training

group for community-based antipoverty organizations. "You don't get the horror stories out of EDA that you get out of the other government agencies."

Still, some EDA grants have provoked criticism. For example, one grant went to the Tlingit Indian village of Hoonah, Alaska, which has a population of 1,093. Hoonah is a fishing center where everyone works in the summer; during the winter months, there is 60 percent unemployment.

The Commerce Department awarded a \$426,000 grant to Hoonah to build a new city hall, putting seven unemployed people to work. EDA funds have provided a dock and warehouse for the community and improved its water system.

And federal funds keep coming. Hoonah, 40 miles east of Juneau, is expecting to build a \$2.8 million harbor with the help of the state and the Army Corps of Engineers and is planning to erect a new firehouse with funds under the Indian Reclamation Act.

Assistant Secretary Hall defends EDA's contributions to Hoonah as essential to expand the local economy. He adds: "The city hall was the result of a careful planning process concentrating on the needs of the community. EDA expects the projects to play a significant role in facilitating the development of the Hoonah economy."

Better alternatives

Another EDA project involves the construction of courses and facilities for the 1980 Winter Olympics in Lake Placid with the aid of \$55.4 million in EDA grants to the U.S. Olympic Committee, the state of New York, and private industry. Several local antipoverty groups think the funds would be better spent on alternative projects.

But Mr. Hall points out: "EDA project engineers were the ones who first discovered that the Olympic Committee and its contractors would not have enough money to complete the projects. It was EDA that notified all the parties involved. EDA was not involved in selecting the contractor. The Olympic Committee made this choice before federal funds were appropriated and EDA became involved."

Perhaps the harshest criticism of EDA is a General Accounting Office report that scores the lack of limits on the amount of loans EDA can guarantee.

Pointing out that EDA has guaranteed \$197 million in loans since 1965,

GAO auditors found a \$131 million unpaid balance at the end of 1978. EDA has allowed nearly 60 percent of its funding to be tied up in guaranteed loans to two shipbuilding companies, one of which has received \$83 million in loan guarantees since it was organized in 1969 to build large oil tankers.

Limits on loans

GAO is also concerned about possible defaults. During its first six years, EDA's guarantees averaged about \$400,000. That has now risen to \$2.3 million. With four unpaid loans totaling \$75 million made to one company, which GAO says is in financial difficulty, the agency is not encouraged by EDA's \$18 million reserves.

To correct the situation, GAO recommends that Congress limit the total amount of all loans and the amount of individual guarantees, with large loans requiring congressional approval. GAO also wants the Commerce Department to reassess the reserve needs annually and adjust the reserve according to potential losses.

Mr. Hall says that "EDA agrees with most of the GAO findings and has taken some steps to correct the problems, including proposed new legislation."

President Carter proposed some ambitious ideas for EDA in his initial reorganization plan submitted to Congress in 1978. Among other moves, the President wants to transfer the Farmers Home Administration's business and industrial loan programs and the Small Business Administration's state and local development corporation programs to EDA.

He also favors consolidating the programs now managed by FmHA and SBA into an economic development financing program in EDA. Legislation will be sent to Congress after it completes action on the President's overall reorganization plan.

Coming of age

Expansion of EDA led to a fiscal 1980 budget authorization of \$1.3 billion for new EDA functions and another \$1.8 billion in loan guarantee authority. As with most other federal agencies, EDA was subject to budget uncertainties as Congress went through the drawn-out process of reconciling funding levels with fiscal targets.

Assistant Secretary Hall calls the proposed expansion "the coming of age of federal economic policy."

Rep. Roe says the expansion will do "what we've been trying to do over the past six or eight years: Forge a nation-

al economic policy and develop an agency that can respond on a regional basis to economic planning with district growth locked into the national economic picture."

Despite the prevailing optimism, EDA is under attack by some economists for focusing on dying companies, industries, and regions of the country. A map of the United States shows those areas qualified for financial assistance from EDA.

There is a wide north-south belt running through the middle of the nation that does not qualify for EDA assis-

tance and is not likely to in the near future.

What will happen to this area? Will it continue to subsidize the rest of the country and be penalized because it has an unemployment rate that is within reasonable limits? Will its potential growth be stunted because businesses have more incentive to locate in other parts of the country? What will be the effects on the long-range economic health of the nation?

The answers to these questions should help to determine the future course of EDA policy. □



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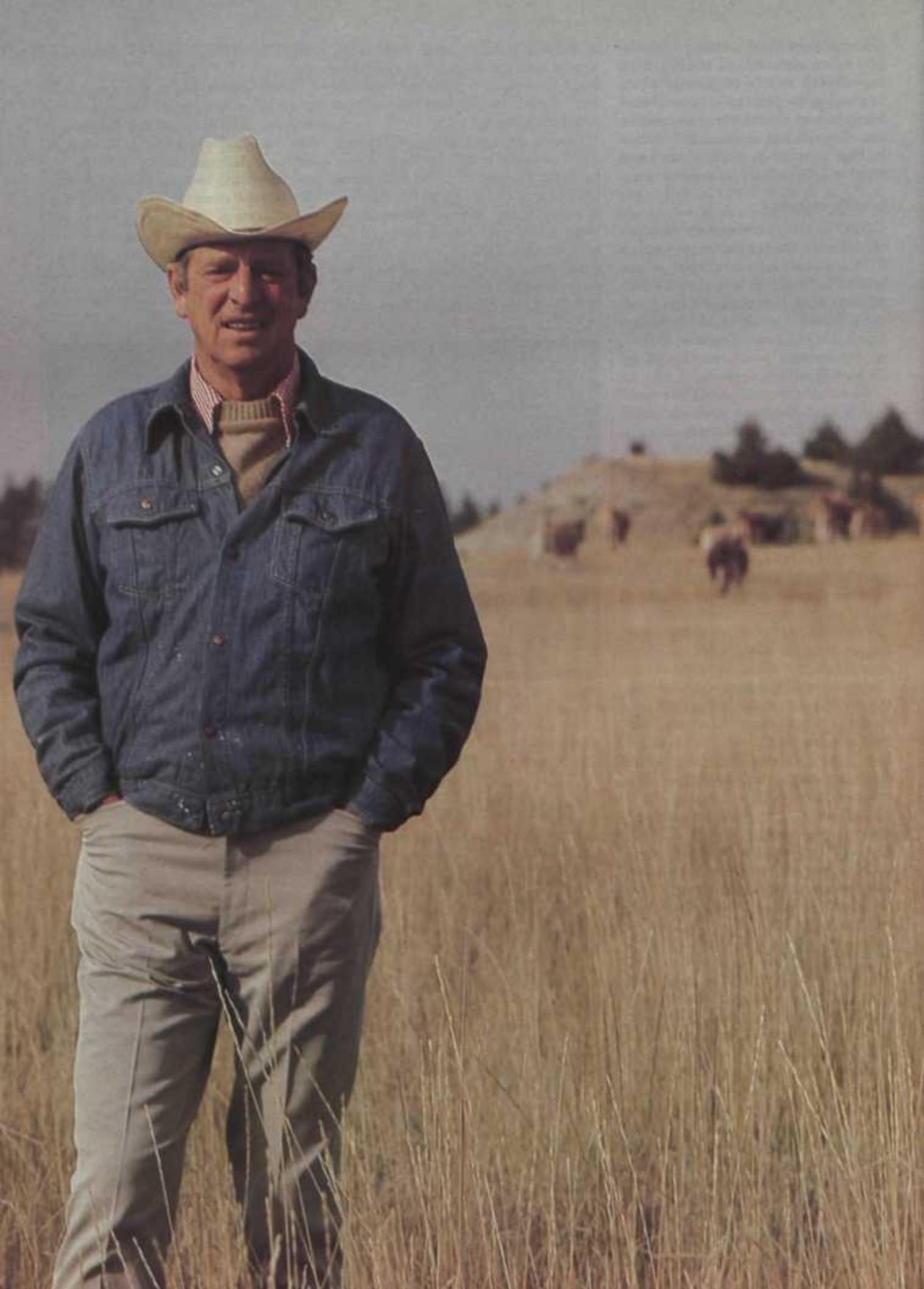
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For Lou Menk, Railroading Has Been a Lifetime Trip

By Wilbur Martin

If Louis Wilson Menk had taken his father's advice, he would never have been:

The youngest president of a major railroad—when he was 44.

President of three successive railroads within 366 days.

President, then chairman and chief executive officer, of the Burlington Northern, one of the nation's largest railroads with 25,000 miles of track stretching from beyond the Canadian border to the Texas Gulf Coast.

"When I decided the railroad was for me," recalls the soft-spoken Colorado native, "I can remember my father saying: 'Wilson, I really don't think there's any future in railroading.'"

At the time, during the Great Depression in Denver, Mr. Menk's railroad brakeman father had a point, a hard economic point. But in 1936 there was a messenger's job open in the telegraph section of the Union Pacific, and Lou Menk, 18 and just out of high school, got it, working 60 hours a week for \$51 a month.

Cattle ranch

"I had a terrific ambition, a career goal you might say today. I was shooting to become a train dispatcher," he mused as he tromped over his 7,000-acre working cattle ranch near Musselshell, Mont.

"I don't think too many future executives will come up through the ranks. I mean all the way. These are different times."

"Practically everybody was poor during the depression," says Mr. Menk. "You learned something from

it. But I don't think anybody would want to do it again."

What did he learn? "For one thing, I learned it was a lot of fun to make money. Also, there's a good feeling in achieving."

Achieving for young Menk was often a matter of survival. "You know those big, old-fashioned railroad watches? I had one. It was in and out of hock more times than I want to remember."

Huge medical bills

Pre-World War II was a time of layoffs and ups and downs. One down was in 1940 when Mr. Menk was laid off from his messenger-agent job; he needed the money to help his family meet huge medical bills after a brother and sister were burned in a fire. He heard that the St. Louis-San Francisco line was hiring telegraphers. Because he had learned Morse code while working as a messenger, he got a job with the Frisco as an assistant telegrapher at Okmulgee, Okla. That was a big up.

"That was the beginning of 25 great years with the Frisco," he says. "Really great years."

"Sure, I could work a telegraph key today. You know, sometimes I find myself drumming out thoughts in code when I'm in a meeting. I'm glad almost nobody knows Morse."

Looking back is usually more pleasurable than living through the events as they unrolled. "I was always at the right place at the right time," says Mr. Menk, reminiscing about the 12-hour night shifts and the seemingly endless transfers... Okmulgee, Tulsa, Thayer, Mo.; Newberg, Mo.; Ft. Smith, Ark.;



The president of three railroads during a span of 366 days, Louis W. Menk says: "I went to graduate school in railroading."



Lou met his wife, Martha Jane, while both were students at the University of Tulsa. During their early years together, they "moved just about every six months" as his career progressed. Home is now in Billings, Mont.

Amory, Miss.; Springfield, Mo.; St. Louis.

"I sometimes think we moved every six months in those years," says Martha Jane Swan, the J in the L-Bar-J brand of the ranch at Musselshell.

The Menks met at the University of Tulsa, where he was struggling to get a college degree, one course at a time. He finally gave up when he ran out of work locations in which colleges were located. It was a big disappointment. Another was when he got an army commission during World War II, but the War Manpower Commission ordered him back to his railroad job.

Billion-dollar line

"I guess I am one of the few people who have really benefited from having had to drop out of college," says Mr. Menk, who holds three honorary doctoral degrees. "I went to graduate school in railroading."

He became president of the St. Louis-San Francisco railroad in 1962.

When he left in 1965 to become president of the Chicago, Burlington, and Quincy, a joint subsidiary of the Great Northern and Northern Pacific, earnings, revenues, and assets had all increased in each year of his tenure.

Within a year and a day, he had been president of the Frisco, the Chicago-Burlington-Quincy, and finally the Northern Pacific, a billion-dollar line.

When he became president of the merged Burlington Northern railroad in 1970, the line's revenues after one full year were \$1.1 billion. By 1978, they had increased to \$2.53 billion. During that span, the BN expanded from transporting less than 20 million tons of coal to last year's 63.1 million tons, making it the largest single coal carrier in the nation. This year's tonnage is expected to increase sharply in line with the new emphasis on coal as an energy resource.

BN is also the No. 1 carrier of grain, hauling 775 million bushels in 1978. With 2,900 diesel-electric engines and

more than 93,000 freight cars, it transports major commodities like taconite from the Mesabi Iron Range, lumber, automobiles, food products, chemicals, and pulp paper, plus thousands of piggyback truck trailers carrying a variety of goods.

The company is more than just a railroad. One division produces lumber and related products from the 1.5 million acres of timberlands it owns in Idaho, Montana, Washington, and Oregon. Other subsidiaries are involved with oil production, an air freight service, and a trucking operation.

Living proof

Along the way in his railroading career, Mr. Menk has collected scores of accolades: Railroad Man of the Year, a Railroader's Railroader, Chief Executive Officer of the Year, the Seelye award for outstanding service to transportation, and the Horatio Alger award given by the American Schools and Colleges Association, which called Mr. Menk "living proof that the free enterprise system still offers equal opportunity for all."

During his years as a railroad executive, Mr. Menk has been an articulate spokesman for an industry he calls a great national asset, "which could do even better if the government would only let us manage."

"This industry has gotten whacked by government, by labor, by just about everybody," he says.

When Congress passed the rail reorganization bill for the Northeast in 1973, some of the most severe criticism was directed at the \$250 million in compensation for disrupted workers. "Ice hockey would have been played in hell before organized labor would have turned its back on several thousand workers and their families. They all could have become economic orphans," states Mr. Menk.

Colorful speeches

Such phraseology punctuates the hundreds of speeches Mr. Menk has made and the hours of testimony he has presented to congressional committees. Other examples of his speaking style include:

"The sex lives of the antelope continue to be fruitful," he said in an environmental debate over the building of a new line by his railroad in Wyoming's Powder River basin, where the antelope still roam.

"Any manager in America who isn't concerned with environmental protection must have gone out for a long

lunch in the 1960s," he told one audience.

"Maintaining money-losing passenger train service makes as little sense as trying to preserve the stagecoach or the paddle-wheel steamer," he told another.

Division point

Mr. Menk gave up chief executive duties last year so he could devote more time as chairman to long-range planning. He also moved his main office from BN headquarters at St. Paul to Billings, Mont., a big division point. "I wanted to get out of the new CEO's hair," he says. "I keep an office there, but it is on the first floor and not upstairs with the daily details."

In chronicling Mr. Menk's success at running a succession of railroads, one newspaper article referred to his managerial style. "I don't know what that is," he says. "I suppose everybody has his own way of operating, but I never thought much about it."

The Menk style, however, has been based on strict cost controls, integrated sales operations, and workable solutions of labor problems.

"I think I have always been fair," says Mr. Menk. "I don't say I've always been right, but nobody is always right in everything."

He was once characterized as having "confidence in the supreme." To which he replies: "I am confident in myself. If I'm not confident about me, who in the world would be?"

Hundred-odd chores

In Mr. Menk's view, the greatest motivation for an executive is desire, to want to achieve and be willing to seize opportunity, "even if you do have to move every six months."

When he isn't traveling, as he is several days each week, Mr. Menk and his wife go to the ranch. "I do things here I'd never do at home," he says, such as mending fences and taking care of the hundred-odd chores that keep a working ranch going.

Although horses are used to move the 500 cows and calves from pasture to pasture before shipping time, motorcycles also help out. And the railroad flavor is not absent. In back of the ranch house is an old freight train caboose, gleaming in fresh paint. "It was great for the kids," says Mr. Menk, whose son and daughter played there.

In an interview with an editor of NATION'S BUSINESS, Mr. Menk reflected on his philosophical and practical approaches to railroading.

You once said we live in gales of change. What did you mean?

I was talking about the relations between business and government. Business needs government, and, of course, this nation has all its economic chips staked on the private enterprise system. If the two institutions don't work together effectively, the whole country is in trouble.

In the three decades since World War II, we've become an economic colossus, one knit together by computers, transcontinental communications, and transportation systems. All these advances have diminished or erased many regional prejudices. They've given us a heightened sense of nationhood. And we built the world's first trillion-dollar economy.

Strangely, this progress was accomplished by two institutions—business and government—that have quarreled almost every step of the way.

What are the biggest problems facing railroads?

In the fall when it is roundup time at the L-J ranch near Musselshell, Mont., fellow cattle ranchers "neighbor," and everybody pitches in. Along with horses, some of the cowboys ride motorcycles to help move the cattle in from the range.

Capital formation, regulation, and cash flow. We average an industry rate of return on investment of less than three percent, and the industry is terribly competitive. Unless we get some sort of equality from the government in regulation, we can't do the job we're capable of doing in meeting the needs of this nation.

Railroads are expected to build and maintain their own track, roadbeds, and facilities. And they do. At the same time, the government pumps hundreds of billions of dollars into highways, waterways, and airways. I think we should have a little enlightened regulation for a change.

What will railroads be like in 2000?

For one thing, I think you will see fewer, but stronger and more efficient carriers. I wouldn't be surprised if there were just five major lines west of the Mississippi and five east.

There won't be much basic change. Newer freight cars for specialized cargo are coming into use by the thou-





"I like to have more than one ball up in the air at once. If I didn't, I'd get bored."

sands now. Since the life of a freight car is 20 to 30 years and that of an engine 15 to 20 years, you won't see that much change in appearance.

I hope that between now and 2000 we will get a new climate in government regulation.

Many people believe passenger trains can be run profitably. Do you agree?

No. Passenger trains are only viable in the heavily populated corridors of the country, say Boston to New York to Washington, and in a few other places. We operate a commuter service around Chicago, serving 25,000 people a day. But people will not spend the time to cross the country on a train. At least not enough of them.

Frankly, the passenger train is as outdated a form of transportation as the stagecoach was when railroads came in. I don't think anybody is suggesting we bring back the stagecoach.

Yet people always point to the European passenger trains as an example of what could be done.

Sure they do, to both Europe and Japan. But what the average person doesn't understand is that the rail systems in those areas are heavily subsidized by governments. And the geography is more compact.

If there is a policy determination that there must be passenger rail ser-

vices, the only way to provide it is to have the general public subsidize it. In a way, railroads are victims of nostalgia. Everybody talks about those super deluxe passenger trains of years gone by. I'm not so sure all that many people rode them.

Of all your subsidiaries, where will the biggest growth occur?

The railroad is always going to grow. But in terms of percentages, our largest growth will probably be in trucking, air freight, and timberlands as well as oil production. We use 1.4 million gallons of fuel a day. Right now, we get about 98,000 gallons of oil daily from our own refinery, about seven percent of our needs.

I think we're going to grow, and if our proposed merger with the Frisco is approved, we'll have a line stretching from Pensacola, Fla., to the Pacific.

Who is the best executive, the specialist or the generalist?

I don't think you can tag a person like that. A specialist has a particular expertise, but he also has to be knowledgeable about a lot of things. A generalist, whatever that is, has to be a specialist in a lot of areas.

Future executives are going to be better educated and probably will not have to make as many personal sacrifices in their lives. They will have a keen awareness of social responsibility. You are seeing that already. The social times affect management, and an executive is going to have to recognize this. But a lot is going to depend upon the individual. Everybody develops his own style.

What's your style?

I never really thought about it. I like to have more than one ball up in the air at once. If I didn't, I'd get bored. I'm one of those people who like to have a lot of things going all at once.

I do know that I haven't minded being abrasive if I had to be. I think I've always been fair, and I know I've always tried to understand people. I know I'm not always right, and that doesn't bother me. Not as long as I'm right a lot more than I am wrong.

But I've always believed that an executive doesn't need to know every little detail. I think it is a mark of weakness if he does. A key role of any chief executive is to get the right people for the job, build an organization, and have confidence in it.

What do you want to accomplish in your business career?

I would like very much to make people understand what a great national asset railroads are and the problems they face. I've been a railroad man all my life. The history of this country is wrapped up in railroads. So is its future. For instance, if we're ever going to be self-sufficient in energy, it will be because we tap the vast coal fields in the West. And railroads are going to move this resource all over the country. Just like this company is doing now.

Why do we need to mine more of the West's coal?

We're going to have to do this. I know this is an environmental issue. Protection of the environment will remain a gut issue for the rest of time. But it is just as true that the trillion tons of coal in states west of the Mississippi are needed by the American people.

I think businessmen, elected officials, government workers, environmental advocates, and media representatives have a responsibility to help work out the answers that require little or no sacrifice in our quality of life and allow us to take maximum advantage of our energy sources.

You know the argument that strip mining ruins the land. It's silly to think that a people who can explore the moon can't make grass grow. Back in 1971, this company began reclaiming land that had been strip-mined between 1920 and 1950. Two years later, winter rye was growing three feet tall.

What criticism of railroads is valid?

I've spent so much time defending the industry against really unjust criticism, I don't even want to think about that.

Seriously, one valid complaint is our car distribution. We're into the most modern computer technology, we've spent millions on new cars and facilities, and we still have an uneven distribution at times. The answer is that we're trying everything we can think of to have the cars in the right place at the right time.

What about the future?

One thing for sure, I hope to see our merger proposal with the Frisco finally approved. Being on the same track with the Frisco again would be especially nice for me.



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continued from page 30B

predicts that 1980 energy prices per million British thermal units will be:

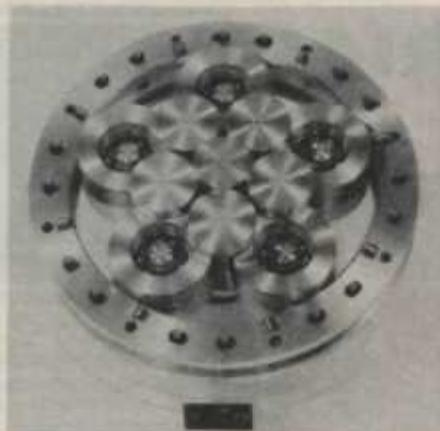
Electricity—\$14.62, up 25 percent from 1978; oil—\$5.22, up nearly 50 percent from 1978; and gas—\$3.45, up 36 percent from 1978.

Two projects could make more gas available. "The remaining financing problems of the Alaska gas pipeline are expected to be resolved so that we can begin to tap the large gas reserves of the North Slope by the mid-1980s," says Mr. Lawrence. "That could reduce U.S. dependence on OPEC to the tune of 675,000 barrels of oil per day."

"We are also awaiting the Federal Energy Regulatory Commission's final decision on the proposed Great Plains Coal Gasification Project, the country's first commercial-scale plant for manufacturing synthetic pipeline gas from coal."

Roller Traction Drive May Replace Gears

Just as the airplane's internal combustion engine gave way to the jet, gears may eventually step aside for



The new roller traction drive system may replace conventional gears for some ultrahigh speed manufacturing jobs.

multiroller traction drives for power transmission.

After more than six years of research and testing, a team of engineers at the National Aeronautics and Space Administration's Lewis Research Center in Cleveland, Ohio, has nearly perfected a device called the Nasvytis Multiroller Traction Drive after its inventor, Algirdis L. Nasvytis.

Stuart H. Loewenthal, lead engineer in the project, says the roller power transmission method could be used in

the machine tool industry where ultrahigh speed would boost quality and productivity. Other applications might be automotive gas turbine drive trains, helicopter main rotor transmissions, wind turbines, and air conditioning equipment.

Instead of gears, the Nasvytis traction drive consists of a cluster of smooth rollers bearing directly against one another. This configuration includes a "sun" roller in the center, two rows or more of "planet" rollers around it, and a "ring" roller enclosing the total complex at the perimeter. By introducing power to either the outer or center roller, the speed can be increased or decreased. The drive system can handle more than 500 horsepower.

"Ultimately, this almost vibrationless means of transmitting power could make a major contribution in minimizing noise pollution," Dr. Loewenthal says. "It is almost certain to reduce present noise levels of mechanized equipment in factories, on highways, and even in the skies."

"For example," he says, "the racket inside a helicopter is caused principally by its transmission. The new drive could reduce the noise." □

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Readers Scorn the Pay Advisory Committee

LAST SEPTEMBER, the Carter administration germinated a new species of inflation fighter, the tripartite Pay Advisory Committee. Made up of six representatives each from labor, business, and the public sector, this descendant of Alfred E. Kahn's Council on Wage and Price Stability will carry on the fight against inflation through voluntary wage and price guidelines. Prof. John Dunlop of Harvard University is responsible for nurturing the panel.

In November, NATION'S BUSINESS queried its readers about the need for this newest Carter economy-improving varietal. The overwhelming response was that it should be left out in the snow to die.

"Another committee?" asks Don C. McCroskey, president of McCroskey Music, Jenkintown, Pa. "This reminds me of the guy who was sent out to drain the swamp, but found himself hip-deep in alligators. He got so busy fighting alligators that he forgot his original goal. Ironically, if the swamp were drained, the alligators would go away." Mr. McCroskey does not think the committee will help cool inflation.

Nor does Don W. Taylor, product line marketing manager for the Guiberson Division of Dresser Industries, Houston, Texas. "High wages and prices are the result of inflation, not the cause," he says. "Federal deficit spending is the real cause."

"The last thing this nation needs is another committee to study inflation," says Jay Upton, chief pilot for Wurlow Flying Service, Houma, La. "If the government could just resist the temptation to continue its counterfeiting operations, inflation would succumb to natural causes."

Clifton P. Colwell, field service engineer for ELE Corp., Ontario, Calif., does not believe that the Pay Advisory Committee will cool the fires of inflation by advocating voluntary wage and price guidelines. He suggests a 50-cent-a-gallon federal tax on gasoline. He says the tax would soak up excess income that is currently adding to inflation and would help reduce oil imports as well as balance the federal budget.



Gerald H. Kreske, chief patent counsel, the Hoover Co., N. Canton, Ohio, says inflation will only be stopped by passing laws that have good cost/benefit ratios.



George E. Batzel, president, Midland Division of the Dexter Corp., Waukegan, Ill., says that we don't need another government bureau to cure inflation, only a balanced budget.

"Another bandage application to a virulent cancer," says Henry Rudy, owner of the Barrel Accessories and Supply Co., Chicago, Ill. "The main engine driving inflation is the federal government and its amateurish stumbling and bumbling."

A few readers think that the Pay Advisory Committee is a good approach to solving the problem of inflation. Rev. Robert K. Loesch, pastor of the Taftville Congregational Church, Taftville, Conn., says: "An advisory committee can help propose new directions and provide a broader base of opinion."

Another proponent of the panel is H. W. Bryan, co-owner of Bryan's, Wolf Point, Mont. He says: "With voluntary wage and price guidelines, it's worth a try. I doubt it would perpetuate wage increases unrelated to productivity."

H. Warren Lutes, president of B-Line Air Conditioning and Filter Service, Inc., Odessa, Texas, views the tripartite pay committee as another way to spend tax money. He says: "The trend of forming another committee when something goes wrong is rampant. There is only one way to control inflation—reduce or eliminate government controls and spending and let the

free enterprise system work us out of this mess."

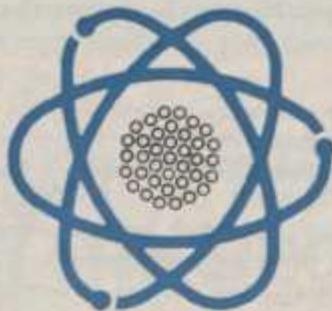
LeRoy Jones, manager of Rockford Investment Corp., Rockford, Ill., doesn't see much hope of success for the tripartite pay committee. "Unfortunately, the federal government is unwilling or unable to stop spending us into oblivion," he says. "The advisory committee is one of the last gasps of a once-great nation, now filled with little men with little ideas."

According to J. O. Prince, Jr., president of Prince's Nursery, Inc., Tabor City, N. C., what is needed to control the inflationary spiral is much less federal spending. He says that the pay committee is an attempt to direct public attention anywhere but to the heart of the problem. He calls it "nothing but a political ploy."

C. V. Marchbanks, Jr., general manager of the Milliken-De Fore plant, Clemson, S. C., says: "Another federal committee is needed about as much as we need another Carter." He doesn't believe the committee can help cool inflation.

Richard Kline, owner of Kline Insurance Agency, Villisca, Iowa, agrees. "God so loved the world He didn't send a committee," he says. □

NUCLEAR ENERGY: Survival at Stake



Last year's accident at Three Mile Island marked the turning point for nuclear power, whose survival in the U.S. is now questionable. Industry executives realize the future will be determined by their response to safety problems.

CAN THE UNITED STATES survive without nuclear energy? Can the United States survive nuclear energy?

These two questions represent the polar extremes of the present controversy over the role of nuclear power in the nation's future.

Some of the most brilliant minds in the country—nuclear physicist Edward Teller, for instance—caution that nuclear power is not an option but a necessity to avoid the collapse of the United States and other free world societies. Opponents counter that nuclear's potential risks outweigh its benefits and the sooner it can be phased out the better.

No new licenses

From a practical standpoint, nuclear power offers one sure way of easing the nation's energy crisis, but the Nuclear Regulatory Commission is issuing no new licenses for nuclear facilities until it adopts new safety, siting, and emergency standards.

That could take months and is only one of many clouds on the nuclear horizon. Others include the regulatory morass, spiraling costs, public opinion, and nuclear waste disposal. But the real problem, suggests Chauncey Starr, vice chairman of the Electric Power Research Institute, is "the validity of the basic belief that nuclear

power is a controllable technology."

That is why Dr. Starr and others contend that the future of nuclear power is likely to be determined not by electric utilities nor by environmentalists or scientists but by public opinion.

Citizens and national leaders must weigh present life-styles and energy security against risks that they are willing to accept. The debate, frequently emotional, sometimes bitter, often confusing, occurs against a backdrop of rising oil prices, a deteriorating national economy, and an unstable Middle East.

A Ford Foundation study urges the government to "develop ready contingency programs for a sudden interruption in oil imports, because such a cutoff is almost certain to happen somewhere, sometime, with potentially disastrous consequences."

"Current events in the Middle East underscore the absolute folly of eliminating the nuclear option," says Dr. Teller, professor emeritus at the University of California and known as the father of the hydrogen bomb.

One of the ironies behind nuclear power's uncertain future is that it has exceeded production forecasts. A Federal Power Commission report in 1964 predicted that by 1980 nuclear power would account for between 40,000 and 70,000 megawatts of generating capaci-



A nuclear power plant, which is controlled by a maze of switches and dials, can be unforgiving in a crisis. The nuclear and utility industries are implementing programs to lessen the probability of operator error. Westinghouse Electric Corp. is forming a new training center which incorporates lessons learned from the Three Mile Island accident.

ity. The actual figure for 1980 is expected to be slightly higher than 70,000 megawatts, according to the Tennessee Valley Authority, the nation's largest utility.

"In another sense, we are light years away from the soaring expectations of the early 1950s, when proponents of nuclear power were glibly predicting that electricity from nuclear fission would be too cheap to meter," says Richard M. Freeman, a member of TVA's board of directors.

According to the Edison Electric Institute, the nation's energy mix for generating electricity in 1978 was coal, 50.8 percent; oil, 18.9 percent; gas, 15.9 percent; and nuclear, 14.4 percent.

Use in automobiles

Today, 72 nuclear-powered commercial generating stations have operating licenses, although only 70 are actually on-line. In 1978, they accounted for 12.5 percent of the total output of electricity—equivalent to about 1.5 million barrels of oil a day. Last year, the United States burned an average 18.7 million barrels of oil a day, half of it in automobiles. The other half was largely used by industry and utilities.

Of the additional 91 reactors that are in various stages of construction, four were scheduled to go on-line this year, but are held up by the NRC's li-

cense moratorium. Another 31 plants are on order, but they will also fall behind schedule. Three other reactor orders were canceled following the accident at Three Mile Island.

Undaunted by the U.S. standstill, other nations are building commercial reactors almost as fast as they can finance them. At the outset of 1979, 209 nuclear units producing 109,144 megawatts were operating in 22 countries. On order are 314 more with a capacity of nearly 300,000 megawatts.

Everyone agrees that Three Mile Island dramatically changed the economics of nuclear power. But even before that near-disaster, inflation had boosted the price. For example, TVA's Brown's Ferry three-unit generating station at Athens, Ala., was completed in 1973 at a cost of about \$900 million. The company's two-unit Phipps Bend plant in northeastern Tennessee, also manufactured by the General Electric Co., will cost nearly \$3 billion.

Nuclear power will also become more expensive because of new security, training, and maintenance requirements. Operator salaries will take a jump as well. William S. Lee, president and chief executive officer of Duke Power Co., says: "We've increased operators' salaries by about nine percent, more in line with their responsibilities."

Last fall, the Nuclear Regulatory Commission calculated the cost of shutting down all nuclear power plants, as demanded by extremist opponents. To fill the void, utilities operating coal-fired plants would require about ten million additional tons of coal a month—about 25 percent more than what is now used. "Coal transportation facilities could ship this increased tonnage only with extreme difficulty," according to the commission.

Triple present levels

If oil were substituted, more than 35 million barrels a month would be needed, requiring a 13 percent increase in imports. The cost would be around \$600 million a month. Because shortages could not be avoided, according to the commission, curtailment of supplies would cost about \$8.3 billion a month.

If the United States resumes developing nuclear power, it is likely to be at a much slower pace. President Carter's original energy plan called for nuclear power to supply 36 percent of the nation's electricity, triple present levels. But the Energy Department has slashed nuclear capacity projections through 1995 by as much as 16 percent.

The department's Energy Informa-

tion Administration attributes the projected drop not to Three Mile Island but to slower growth in electricity demand and increasing problems in financing nuclear plants.

"The greater portion of this reduction was already coming down the pike, and Three Mile Island just pushed it off the log," says a spokesman.

Meanwhile, licensing delays will cost both consumers and utilities. Public Service Gas & Electric in New Jersey, for example, has a plant ready to go, and delays are costing the company about \$230,000 a day.

That is about one third the cost of 45,000 extra barrels of oil which are needed to maintain the company's generating capacity.

Frequently mentioned

Present and projected costs of nuclear power have stimulated discussion of less expensive substitutes. Coal is most frequently mentioned. In some parts of the country such as the Midwest, coal can be burned more cheaply than nuclear power can be generated. Ample supplies are relatively close, minimizing transportation costs.

But these situations are the exception, not the rule, report utility executives who are responsible to stockholders for supplying electricity at the lowest possible price. Executives agree almost unanimously that nuclear is still the better buy.

Why? After each type of power plant is built, the big cost difference is in fueling them. Coal is about three times more expensive. Historically, the cost of operating the newer nuclear power plants has been about 25 percent less than coal-fired generating stations, according to Eric Leber, director of energy research for the American Public Power Association.

Costly regulations

The national average for supplying power in the United States is about six cents per kilowatt hour. In the 1960s and early 1970s, it cost about \$350 to install each kilowatt hour of nuclear capacity. That has risen to between \$1,200 and \$1,500. But coal is more than \$1,000, too, due mainly to costly environmental regulations.

"We have been able to generate electricity significantly cheaper through nuclear power than at most of our coal-fired units," says David Rossin, nuclear research engineer for Commonwealth Edison Co. in Chicago, which operates six plants of each type.

PHOTO: JIM ANDERSON-BLACK STAR



In the future, the nuclear industry is likely to adopt some of the tactics of their opponents and take the offensive for a change. Critics argue the central issue is that nuclear power is not a controllable technology.

Nuclear opponents point out that sophisticated safety equipment will become mandatory soon, adding to the cost. But coal has no real advantage either. Most coal-fired utilities now lack scrubbers, and eventually this expensive hardware will add substantially to the cost of burning coal. Other environmental laws are sure to push the price even higher.

"Our best estimates are that nuclear will continue to hold a ten to 20 percent cost advantage over coal in the long run," says Dr. Rossin of Commonwealth Edison. "Our decisions are based on good business sense—not on promoting nuclear."

When utilities plan a major investment in a power plant that takes ten years to build and has a life of 30 to 40 years, a ten to 20 percent cost advantage is not much, adds Dr. Rossin. "Neither Commonwealth Edison nor any other public utility is going to rule out one form of power generation over the other; they are both viable and necessary."

Solar energy is the alternative most favored by nuclear opponents. Among its staunchest advocates is the Boston-based Union of Concerned Scientists, which favors developing nuclear power gradually while pushing solar so that it can provide up to 20 percent of the nation's energy by the turn of the century.

"Twenty percent solar by 2000 seems high to me, but many people support this concept," says Alvin M. Weinberg, director of the Institute for

Energy Analysis in Washington, D.C. "We are currently developing a study of the possibility of an all-solar society, but that appears out of our reach in the foreseeable future."

Dr. Starr of the Electric Power Research Institute calls solar technologies the second best future alternative behind nuclear energy for replacing coal, oil, and natural gas in the 21st century. But, he adds, the cost of using solar energy for anything beyond low temperature heating requires "capital investments in conversion equipment at least five to ten times greater than that needed for nuclear fission."

Electricity consumption

In favor of nuclear power is its capacity for generating the electrical energy needed over the next 30 years, if its development continues. Current studies show that electricity consumption will increase between 3.7 and 5.4 percent a year through the 1990s. This compares with an historic seven percent annual increase. The precise figure will vary according to geographic region and will probably average around 4.6 percent.

Annual consumption projections have been declining for the past few years. "Two things are at work here," says Donald Hodel, president of the National Electric Reliability Council. "Many utilities are accounting for the new conservation ethic among consumers, while others just don't have the power supply they used to have, so

they are projecting a growth rate they think they can meet."

But according to Eric Van Loon, executive director of the Boston scientists' group, all the nuclear power plants could be shut down tomorrow, and no lights would go out because utilities could share excess capacity and fill most regional shortfalls. Of course, utilities would have to rely on either oil or coal, and coal-fired plants shut down for routine maintenance would cause power outages. On average, the nation's coal-fired plants are out of service for maintenance between ten and 15 percent of the time.

Cutting it close

"The nation no longer has the comfortable buffer between supply and demand that we had in the past," says Mr. Leiber of the public power association. "It used to range between 30 and 40 percent in most regions, but it is down to around five percent for much of the country; that's cutting it pretty close."

Some parts of the country don't have even that. Florida, where burning coal is virtually prohibited, has been on an emergency planning basis for months, and most of California has only three or four percent excess capacity.

"Even at a 4.5 percent increase in electric consumption, a doubling of generating capacity will still be required in 15 years, compared to ten years with a seven percent growth," says Larry Hobart, assistant executive director of the public power association.

Even though demand will fall, restrictions on the use of coal and the skyrocketing cost of oil figure heavily in utilities' long-range plans. A TVA spokesman sums it up: "We're counting heavily on the six nuclear power plants we now are constructing to help us meet the 4.6 percent growth we see over the next 15 years."

Long lead time

So are a lot of other utilities. Obviously, nuclear power programs will have to resume soon if utilities expect nuclear energy to help fill power needs in the 1990s, given the long lead time—ten to 12 years—needed to build and license nuclear plants.

"Either we turn to conservation or we put nuclear power plants on line," says David Dorfan, professor of physics at the University of California, Santa Cruz. A consultant to the state of California on nuclear power station siting and a member of the American Physi-

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The unresolved dilemma of how to dispose of nuclear wastes permanently is one of the thorniest problems. Most experts believe that storing wastes in vaults buried deep in a stable geologic medium such as salt is the best option.

cal Society's study group on nuclear safety, Mr. Dorfan is neither for nor against nuclear power.

"We are at the point of either-or choices," he adds. "With the continued depletion of our own natural resources and the control of other resources in the hands of cartels such as OPEC, time is running out for the United States to make a decision on its energy future."

Go-slow approach

Few factors can stymie an industry like uncertainty, and no one knows this better than utilities and the manufacturers of nuclear power plants. For the time being, they remain cautiously optimistic about the resiliency of nuclear power.

Opponents and advocates of a go-slow approach to nuclear power suggest that the new economics of nuclear energy, plus even the remote possibility of future mishaps, will turn off investors. "Nuclear, in effect, is in sudden death overtime, and financiers must be asking themselves if they want to risk huge amounts of capital," says Mr. Van Loon of the scientists group.

But nuclear's 23-year safety record apparently still influences investors. "There is some degree of apprehension on Wall Street, but I am aware of no firms unwilling to consider lending to utilities," says A. J. Pfister, general manager of the Salt River Project Ag-

ricultural and Power District, the second largest utility in Arizona.

"Investor confidence is indeed fragile," observes J. Hugh Devlin, managing director of Morgan Stanley & Co., Inc., New York City, an international investment banking firm. "The key to utilities' financial health will be responsible regulation that enables them to recover their costs and continue to attract funds in the capital market."

Mr. Pfister's outlook is reinforced somewhat by Paine, Webber, Mitchell, Hutchins, Inc., a major stock brokerage firm. Antinuclear groups may be as determined as ever, but, as measured by stock performance last summer, investor concern about the Three Mile Island accident appears to have subsided, according to a company report. It points out, however, that the probability and financial consequences of nuclear accidents are higher than previously thought.

Generating stations

No less of a risk is the business of building nuclear power plants by the four major manufacturers: Westinghouse, General Electric, Babcock-Wilcox, and Combustion Engineering, Inc.

Only two nuclear generating stations were ordered in 1979, and those came from Korea. Westinghouse, the leader, got the business. In the past five years, the number of cancellations has exceeded new orders. Commonwealth-Edison in Chicago is the only

American utility that ordered any new plants in the past three years. Westinghouse filled those two orders as well.

No new domestic orders are expected in 1980. What little business is generated will probably come from overseas buyers. "The size of the industry is getting smaller every day," says Robert E. Kirby, chairman of Westinghouse Electric Corp. "We'll continue going through a low period before it improves."

Hard-pressed

That low period, according to the four companies, could last up to three years, during which the four firms will be hard-pressed to sustain their technical capability.

"The reason people aren't buying new nuclear plants is not because of the economics, but because of the delays brought about through the regulatory environment," says Dr. Rossin of Commonwealth-Edison.

Combustion Engineering has already laid off several hundred employees, at least two of the major firms have started consolidating manufacturing operations at locations previously devoted to all nuclear work, and some small vendors are dropping out.

"We're also having some difficulty in attracting new people to the profession," says Bertram Wolfe, vice president and general manager for General Electric's nuclear fuel and services division. "The enrollment at nuclear engineering schools in some parts of the country has declined as well."

Fuel reloading

Only Westinghouse is making any money manufacturing nuclear power plants these days. The Pittsburgh firm has a backlog of nearly \$5 billion, including fuel reloading for existing plants and commitments to build 71 more worldwide. That schedule will carry Westinghouse through 1994. But the company's current nuclear-related business is only 20 percent of what it was during the boom years of 1967 and 1968.

"We can endure a substantial reduction in new plant orders for another three years," says Theodore Stern, executive vice president of nuclear energy systems. "But if we were shut off from building any new plants in the United States, there would be cause for serious concern."

Nuclear power contributes less than ten percent to the total sales of Combustion Engineering, whose backlog in

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the United States amounts to about \$1 billion. "We plan to devote more of our attention to developing overseas markets," says Howard Winterson, president of C-E's power systems group.

One third of General Electric's nuclear business is already overseas, and that will probably increase. "If we can stay alive by helping other countries secure their own energy future, then we will have kept alive the nuclear option for the United States when it finally wakes up," says Phillip Bray, vice president and general manager of GE's nuclear power systems division.

The manufacturers would like to streamline the licensing process. Some favor the regulatory pattern in the airline industry, which also involves a heavy public commitment and multiple designs and licensing of a single product—commercial airliners.

"We should be able to obtain a worthiness certificate for each new nuclear plant design instead of having to go through the process with each new plant, even though identical models

may already be operating," says Mr. Bray.

Logically, this may make a lot of sense, but emotion, not logic, rules much of the current debate on nuclear energy. No other American industry can claim the kind of safety record compiled since the first commercial reactor went into operation 23 years ago in Shippingport, Pa. No person has been killed by a radiation accident at an American commercial nuclear plant. Nor has any member of the public ever been killed or injured. Yet the nuclear fears of some people border on hysteria. Why?

Dealing with intangibles

"I think it stems largely from the idea that when you're dealing with nuclear, you're dealing with intangibles," theorizes Sen. Henry Jackson (D-Wash.), chairman of the Senate Energy and Natural Resources Committee.

"A scientist goes on the tube and says look, so many people will die of cancer ten years from now, and the re-

sult, of course, is fear. You can't dramatize the same thing if a liquified natural gas truck blows up in the heart of Manhattan. That is finite."

In the end, the public is expected to decide the fate of nuclear power in the United States. After Americans had three months to mull over Three Mile Island, Louis Harris Associates, Inc. and the Gallup Organization surveyed public attitudes about the future of nuclear energy. Their findings revealed that while the public is concerned about the safe operation of nuclear power plants, a majority still supports the atom.

"It has been hard enough keeping Congress supportive with a majority of people behind us," says Carl Walske, president of the Atomic Industrial Forum, the industry's Washington-based trade association. "But if that ever tilted in favor of the opponents, we would probably see all kinds of restrictive legislation in Congress."

Dr. Weinberg of the Institute of Energy Analysis puts it another way:

One Million Fuel Rods Later . . .

Even if the nation rejects the nuclear option, it must still dispose of radioactive by-products that have been accumulating for the past 30 years.

According to the American Nuclear Society, weapons production and other military programs have generated more than 100 million gallons of high-level waste since the end of World War II. During that same period, commercial reactors have produced another 600,000 gallons.

In one year, a nuclear power plant produces about 2,200 pounds of waste, mostly spent fuel rods. A coal-fired plant of comparable generating capacity produces about 4.6 million pounds of waste, mostly slag, plus large quantities of sulfur dioxide.

The spent fuel rods—pencil-thin metal containers that hold the uranium pellets that power the reactors—are being stored in underwater pools at reactor sites.

Various industrial techniques are being considered to transform the wastes into a solid such as a crystalline ceramic, which would then be encased in specially fabricated canisters.

Most experts agree that underground vaults in salt or granite are

probably most feasible. Geologic repositories have been endorsed by numerous scientific and engineering organizations, including the National Academy of Sciences.

The Energy Department has narrowed potential disposal sites down to three places where an underground facility could be built. They are located in Texas, Utah, and Hanford, Wash. "We expect to pick the first site in 1981, complete the necessary environmental impact statements, and come on-line in the early 1990s," says a DOE spokesman.

A network of tunnels would be burrowed at the bottom of a 2,500-foot shaft. The wastes, encased in stainless steel casks and handled by remote control, would be inserted into cylindrical holes in each of the tunnels.

Clay would be packed over the top, followed by still another sealer. Each canister would be spaced so that heat from one did not reach the other. Then, starting at the far end of each chamber, the underground network would be backfilled, possibly with salt, until all of the tunnels were completely refilled.

Congress is still waiting for recom-

mendations on waste disposal from the White House. An interagency task force submitted its report to the President in March, 1978, but so far there has been no public reaction from Mr. Carter.

Many public interest groups want the government to approach a solution gradually, building a permanent disposal site around the end of the century.

But nuclear waste disposal may be unable to wait on that kind of schedule. Sen. Gary Hart (D-Colo.), who heads a nuclear panel for the Environment and Public Works Committee, wants a deadline for permanent underground storage. If no such storage is available by 1985, his bill would require the generating capacity of operating reactors to be reduced by ten percent a year, with all reactors shut down by 1995.

One of the biggest disposal controversies is the period of time—in some cases 25,000 years or more—that the wastes remain highly radioactive. But, says the American Nuclear Society, the geological formations being considered for ultimate burial are expected to remain stable for millions of years.

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Nuclear power plants are shut down at regular intervals to allow engineers to conduct thorough checks of components.

"The nuclear energy enterprise cannot survive unless the public and the public opinion-makers regain confidence in it. Unless this happens, the nuclear age will grind to a halt as the present reactors run their course."

At the heart of the safety issue is what constitutes acceptable risks. In other words, how safe do you want to make nuclear?

"We really don't know for sure how safe we can make it, but we also don't know for sure how safe we can make the burning of coal," says Mr. Freeman of the TVA. "The continued development of nuclear will depend largely on how well the energy sector responds to the safety challenges of Three Mile Island."

A cooperative self-improvement program by the electric utility industry is now under way. Two of the major components are the Institute of Nuclear Power Operations and the Nuclear Safety Analysis Center.

The institute, scheduled to begin operating next month, will establish industrywide benchmarks for nuclear operation and conduct independent evaluations, determine educational and training requirements for operating personnel, and accredit training organizations. The analysis center is already coordinating the technical lessons learned from Three Mile Island.

Individual utilities are also upgrad-

ing safety. Many have instituted more stringent requirements for training their nuclear plant operators. The TVA has even established an inhouse nuclear safety review staff to advise the TVA board of directors.

The former industry attitude that if federal regulations were being met then everything must be okay is changing. "We are going to have to get away from the attitude that safety is the regulators' responsibility," says Mr. Freeman. "We're going to have to make our own safety assessments and, in effect, do a better job than the regulators."

Nuclear's safety success will depend on the utility industry's ability to rid itself of the mentality that a nuclear power plant is just another generating station, he adds. "We must remember that nuclear power is a potentially dangerous source of energy that must be managed with great care and attention to detail."

Margin of safety

The risk of reactor malfunction is a matter of probability, says Mr. Weinberg of the Institute for Energy Analysis. There will always be a risk, so now is the time to cut the odds against accidents, to lengthen the probabilities, he says.

Paul Kruger, a professor of nuclear civil engineering at Stanford University and chairman of the American Society of Civil Engineering's task force on nuclear effects, points out there is no such thing as 100 percent assurance in anything.

"People have been led to believe that without nuclear energy they will not be exposed to radioactivity; that's false," he says. "There is radioactivity around us every day."

The increased cost for each additional margin of safety can eventually reach the point where nuclear power plants aren't even worth operating. "We may not be very far from that point," says Dr. Kruger.

Whatever the probabilities of a mishap, they are still low enough to retain the confidence of insurers. "The accident at Three Mile Island was confined to the site itself, which gives us faith in the safety systems," says John Quattrocchi, supervising underwriter of American Nuclear Insurers.

It is the largest of the three associations of American insurance companies that collectively provide public liability and property insurance coverage to all nuclear plants and their suppliers.

In their drive to win public confi-



Protective gear shields two technicians from radiation exposure as they descend into the core of a nuclear reactor.

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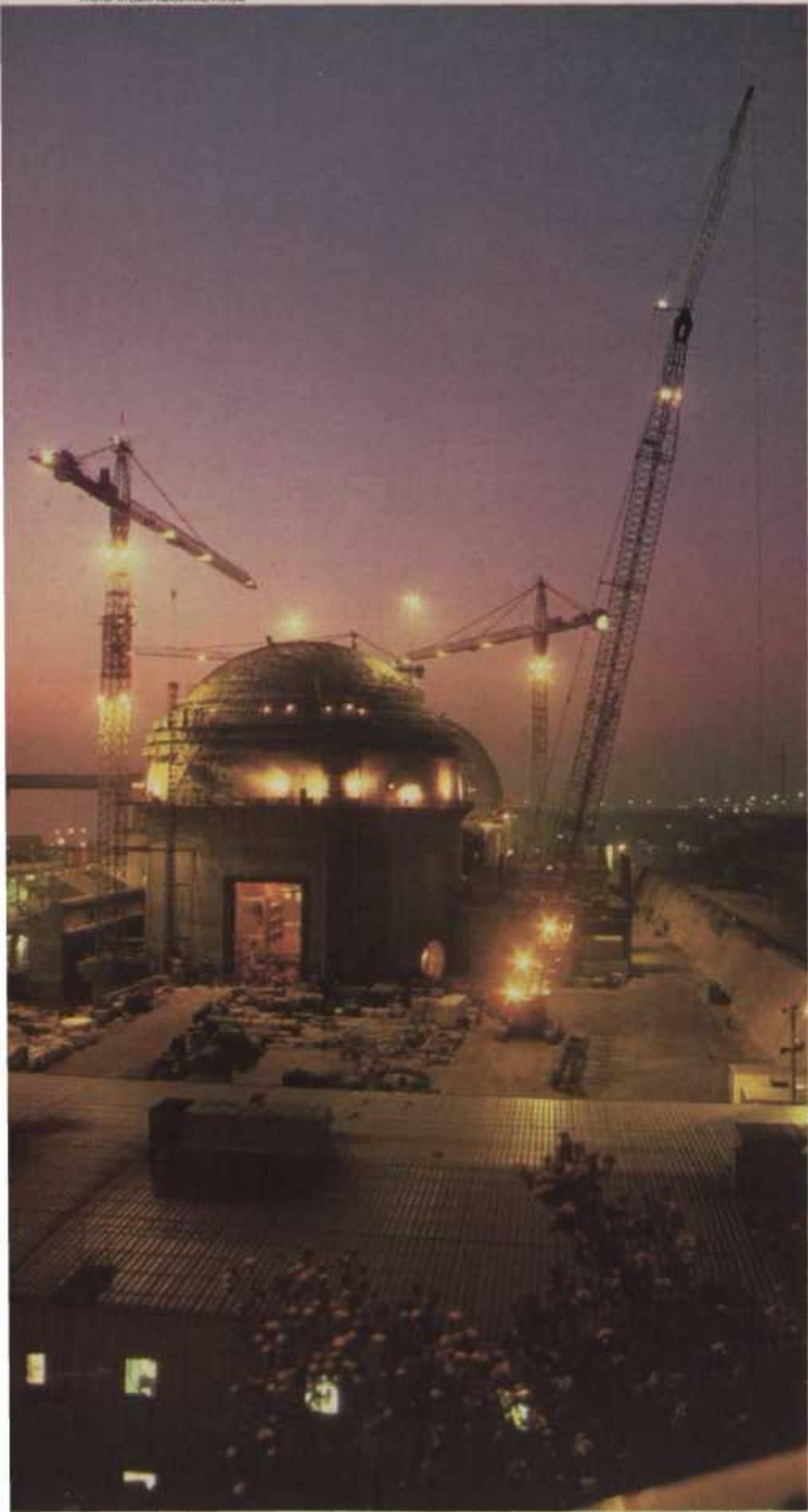


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The moratorium on operating licenses and construction permits for new plants has brought the nation's nuclear power program to a virtual halt. Energy analysts say this is bound to compound national energy woes later this decade.

dence for nuclear power, utilities and manufacturers are taking a few lessons from nuclear foes, who are well-organized and usually speak with a unified voice. Companies will become more aggressive in their communications programs. More candor about the risks of the nuclear option can be expected from proponents, who will forcibly remind the public of the benefits.

Although many academicians, economists, and energy planners warn that America will face rough times starting in the late 1980s unless nuclear survives, such forecasts may have little influence on public opinion.

The most convincing argument for nuclear may turn out to be the direction oil prices are expected to continue going—up. President Carter says the United States "will be fortunate to escape a second radical increase in world oil prices" by 1985. By 1990, world oil prices could reach \$55 a barrel.

Radical views aside, enough people believe that nuclear energy will not survive. They argue that the nation may have a better chance of overcoming the obstacles limiting the expanded use of coal than the public fear of a major nuclear accident. The Union of Concerned Scientists flatly predicts that no more nuclear plants will be built beyond the ones already under construction. And nuclear scientist Dr. Kruger expects that public apathy and the spiraling costs of regulations will eventually price future nuclear plants out of existence.

Better managed

On the brighter side, nuclear optimists believe that the industry will not only survive but emerge safer, stronger, and better managed. And national figures in the public and private sector, although lukewarm to nuclear, concede the atom will be absolutely essential to help coal supply the bulk of America's electrical energy needs.

Long-range, nuclear energy will probably survive, but its growth will be stunted. "Nuclear power may not be the sole solution to the problem, but it certainly is part of the answer," says Mr. Hobart of the public power association.

"We ought to do more than just master and implement the safety lessons of Three Mile Island," he adds. "We need to make some hard decisions about where we are going and stick to them." □



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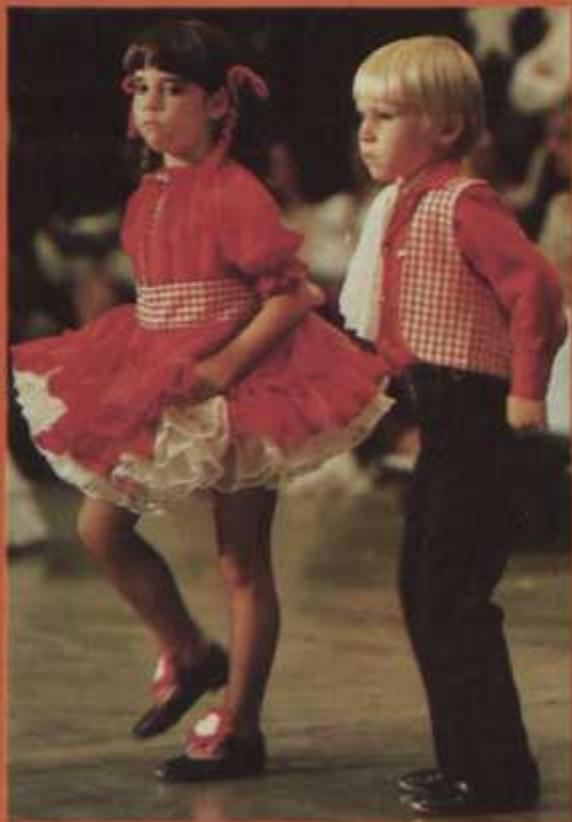
Life-Style

SQUARE DANCING

A SMILE SET TO MUSIC

By John Costello

PHOTO: SHELLY KATE/BLACK STAR



Square dancing is a uniquely American art form in which age is no barrier and colorful costumes are a must. Learning the calls requires lessons, experience, and the ability to laugh and try again when you or your partner get mixed-up.



AFTER the votes were tallied, the Krazy Eights Square Dance Club knew the worst. The club had just lost two would-be members.

The nation had elected a new President and gained a new First Lady. The Krazy Eights' loss was America's gain. Both Jimmy and Rosalynn Carter are square dancers. When governor of Georgia, Mr. Carter said he looked forward to going back to Plains and joining the Krazy Eights club in Buena Vista nearby.

Jimmy and Rosalynn began square dancing in April, 1963. That's when Rodney Houston Blaylock, a caller from Albany, Ga., introduced them to the mysteries of allemande left and allemande right—maybe even Box the Gnat and Wring the Dishrag.

It was an open house for beginners held by the Merilegs Square Dance Club at the American Legion Hall in Dawson, Ga. A young couple came up to Mr. Blaylock.

"My name is Jimmy Carter," the man said, using a line that later became famous. "This is my wife, Rosalynn, and we want to learn to square dance."

That night, Mr. Blaylock told his beginners to wear comfortable clothes and a big smile. "I remember thinking, later in the class," he writes in *Square-dance* magazine, "that Jimmy had listened well, for I saw him wearing that smile a lot. Especially when he blew the call."

*Wipe off your tie,
Pull down your vest,
And dance with the one
That you love best.*

Square dancing has come a long way from rustic barns to the Executive Mansion, in numbers as well as in sta-

tus. Once square dancing was a dying folk art. "Had it not been for its survival in New England and in other rural areas," says Martin Rossoff in *Hoe-down Heritage*, "square dancing might have disappeared completely during the first quarter of this century."

How many Americans square dance today? No one knows, down to the last twirling couple.

The American Square Dance Society says millions of Americans are square dancers. That estimate includes club members who dance regularly as well as those who hoof it occasionally.

In Milwaukee, Wis., more than 22,000 square dancers showed up last year for the National Square Dance Convention. In 1976, when the convention was part of the nation's 200th birthday celebration, nearly 40,000 danced in Anaheim, Calif.

*Rope the cow,
Brand the calf,
Swing your honey
Once and a half.*

Maybe that's a clue to its popularity. After World War II, square dancing boomed for two decades. In September, 1950, NATION'S BUSINESS took note of the revival of square dancing in an article entitled, "The Turkey's in the Straw Again."

It quoted Bob Osgood, editor of *Square Dancing* magazine, as saying: "We sort of feel that the war was the greatest single factor in the growth of square dancing. It's a natural mixer."

Lately, some believe, square dancing's popularity has leveled on a high plateau. But the number of callers continues to grow. In 1974, the Callerlab—International Association of Square Dance Callers had 124 members. Today, it has 1,200.

How did a little-known rural frolic or cowboy caper become such a fad?

Like jazz, square dancing is an American creation. But it's like crabgrass.

It flourishes in many places and on other continents—Asia, Europe, Canada, and the Land Down Under.

Square dance calls, not Esperanto, are the true international language. Allemande left and do-si-do are understood in Berlin, Brussels, Tokyo, or Quebec, as well as in Des Moines.

Callers don't need interpreters—just good vocal cords.

*Hand over hand
And heel over heel,
The more you dance,
The better you feel.*

Roy B. Davis and his wife, Marita, have been square dancing for 20 years. "We took lessons in 1959," says the vice president in charge of sales for Alemit Co., Louisville, Ky.

"The square dancing that's so popular today is Western style. It's different from country-style or mountain-style. They're more or less the old barn-dance style, usually danced in one big circle."

"Western-style dancing is in sets of four couples each. It was popularized by Pappy Shaw out in Colorado in the 1940s."

Roy and his wife dance a couple of times a week. What's the attraction? "It's just a wonderful recreation," he says. "It's fun, relaxing, and you make a lot of friends."

Relaxing? Dancing for three solid hours, logging maybe 12 miles a night across the dance floor?

"Yes," he says, "it helps so much. You know so many things happen to us during the day. The problems you get



Millions of Americans are square dancers, including Jimmy and Rosalynn Carter. A dancer needs to know at least 65 calls.

in business. You've always got something turning over in your mind, and you need something that takes you away from that. Square dancing is such a change of pace, it just rejuvenates you."

Mr. Davis uses square dancing as a management tool. "I have 13 salesmen who work for me," he says. "And if I'm going to have a sales meeting with them, I always try to square dance the evening before. It relaxes me, and I go to the meeting with my head clear."

"If I don't, I'll roll and toss all night long, trying to make sure I'm prepared. And if you're not prepared by that time, you're in trouble."

*Swing your little sage hen,
'Round and 'round,
Till the heel of your boot
Makes a hole in the ground.*

Until she pulled on her big, swishy skirt, petticoats, and dancing shoes, Elaine Fontz was so shy she could hardly talk to a stranger.

Why was she so retiring? It started when she was a kid growing up in Baltimore, Md.

"I think it was our generation," she says. "There weren't too many of us, so adults kept after us more. When I grew up, we were seen, but not heard."

Certainly, Elaine wasn't. Then in 1964, she and her husband, also on the quiet side, took up square dancing.

"His boss, who was a square dancer,

encouraged it," she explains. "Several people from the company went to take lessons, but we were the only ones who stuck to it."

Why was that?

"Because we enjoyed it so much. It used to be very difficult for us to meet people—or talk to them until we knew them real well. But square dancing changed that. You're in a square with people, dancing with them, holding hands—it's very friendly."

"Square dancing made us more outgoing. Now we're joiners."

Change may be too weak a word. Maybe transform is better.

Elaine is now owner of Fontz Mimeo-Graphics in Towson, Md. Two years ago, she and her husband, Bill, were directors of the Mason-Dixon Square Dancers Federation's annual festival.

The event draws square dancers from all over the country. About 1,000 of them filled the huge ballroom of the Hunt Valley Inn near Baltimore. It was a colorful sight. Hundreds of sets, swirling around under the elegant Italian chandeliers, the men in bright shirts, usually matching their ladies' dresses that fluffed out like tutus.

Up at the mike, welcoming the guests, introducing the callers, and giving a spiel for the federation was the once bashful kid from Baltimore.

How come the once tongue-tied wallflower was acting as mistress of ceremonies?

"I had to do it," Elaine explains. "My husband wouldn't."

*Promenade in
The old red wagon,
Axe broke and
The hind wheel draggin'.*

Howard B. Thornton's wife, Peggy, got him into square dancing. That was probably inevitable. It ran in her family.

"Both of her sisters were square dancers," says the owner of Midwest Travel Service in Midwest City, Okla.

"And so were their husbands. One was a fireman, and he organized two square dance clubs. The firemen worked 24 hours on, then 24 hours off. He organized a club for each shift."

"One was called the Anchor Club, the other the Third Alarm."

Mr. Thornton thinks that the way he got into square dancing—dragged kicking and screaming—is typical.

"My wife kept after me, and finally I said: 'Well, all right. I'll go a time or two, just because you say so,'" he says.

"The women are the ones who get a family into square dancing. The men are harder to persuade. But after a while, after the first couple of lessons, you both enjoy it."

Can you start without formal instruction?

No way, says Mr. Thornton.

To dance at the basic mainstream or fun level, you should know at least 65

How to Profit From Our Continuing Inflation in Real Estate

Isn't it about time you personally took steps to cope with inflation and use it to **create wealth** for you instead of standing by helplessly while it drains your paycheck?

by Mark O. Haroldsen

Specifically What You Can Do

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Many Others Have Done It

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— Gary Weaver, San Gabriel, Calif.

"I am 27 years old, married, with one son. We have wanted a nice home for several years, but we never could seem to get out of debt, much less save up a down payment on a new house. The very day I got your book, I read it from cover to cover. Later that afternoon, I used an idea I got from your book to buy the house we had been wanting. It is a beautiful house, complete with a heated pool and all the works. The idea was so simple that I couldn't believe how well it worked. . . I firmly believe that in a few years, I too will be worth at least \$1,000,000."
— Emmett G. Godfrey, Bessemer, Alabama

"As a result of just looking around and talking to realtors I found my first house (a roughly divided duplex) at a bargain. The owner was willing to finance about 85% at 6% interest. Before I could even close I had several people call wanting to rent. I have a good positive cash flow (about \$80 over the note) and am looking for other properties and ways to finance. I suppose I knew it was possible to make this type of investment; I even had a vague idea about the tax advantages. But I just didn't realize how easy it could be until I read your book."
— Michael E. Burford, Mississippi

If you're like most people, you're probably skeptical, especially when I'm going to ask you to make a check out for \$10.00 (\$9.50 less than Gary Weaver paid) and send it to me and receive your own copy of "**How to Wake Up the Financial Genius Inside You**". I really don't blame you for your skepticism, because of the many people in



Mark O. Haroldsen spent four years perfecting a "wealth formula" that harnesses runaway inflation and became a millionaire in the process. More than 400,000 people have discovered how his method can lead them to total financial freedom.

this world trying to deceive others.

It's Guaranteed

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Step Right Up, and Don't Be Shy Your Feet Are Shuffling and Ready to Fly

Square dancing has its own proverbs to attract and reassure the novice. "If you can walk, you can dance." "You're never too old or too young to square dance."

But square dancing cannot be done alone; a square needs you and seven others. Clubs and beginner groups can be located through recreation agencies in your community. Also, check square dance listings in the yellow pages and the local chamber of commerce, which often has names and telephone numbers of callers. If all else fails, write to American Squaredance, Post Office Box 488, Huron, Ohio, 44839.

Square dancing will adapt to the amount of time the dancer wants to invest. Beginner groups usually meet weekly until the basic steps are mastered. Clubs meet weekly, bimonthly, and monthly, as decided by the members.

Some dancers have only one group; many dance at several clubs;

and few dance four and five nights weekly at clubs and workshops.

Costs also vary. Admission fees at a club dance are lower than the cost of many other entertainments, usually about \$2.50 or \$3 a couple.

You may spend as much or as little on the colorful full-skirted dresses and Western-style shirts and pants as you wish. Most necessary are comfortable, low-heeled shoes for the ladies and Western-style boots for the men.

V. P. Cummins, secretary treasurer of the National Association of Square Dance Suppliers, gives the following price estimates for a man's outfit: Shirt, \$15 to \$17; Western tie, \$1.50 to \$8; pants, \$18 to \$20; and boots, which are optional, from \$50 and up.

Women who are handy with a needle can make their own outfits. If not, says Mr. Cummins, the cost might run: Pettipants, \$7 to \$8; small crinoline petticoat, \$16 and up; full skirt, about \$30; and shoes about \$20.

calls and how to execute them smoothly. Higher levels—advanced or challenge—require the dancer have a much wider repertoire.

To get into square dancing takes more than just the urge.

"Usually it takes about 20 lessons before you can belong to a square dance club," he says. "And a lot of people think, oh, I don't want to do that. But the lessons are as much fun as the dancing itself."

The Thorntons belong to a club called the Fun Timers. But the fun, he says, doesn't stop with the music.

"If it did," he adds, "square dancing wouldn't be as popular as it is."

The Fun Timers kick up their heels on other occasions, too. Trips to Oklahoma City to see road shows like *Annie*, to the state fair for the ice shows, and to state parks for weekend camping.

Then, there's the annual National Square Dance Convention. Like Roy and Marita Davis, the Thorntons are on the executive board of the organization—with the same name—that puts on that mammoth shindig.

"We've been to every one since 1953," Mr. Thornton says. "And believe me, it's become the world's biggest annual reunion."

state of Wisconsin on it, and in the upper lefthand corner is a square dance couple.

"On the highway, when other drivers recognize it, they'll honk their horns to show that they square dance."

"We were driving up to a square dance festival in Michigan—the Sunshine Festival—and this trucker pulled up behind us."

"'What's that funny flag?'" he asked over his citizens band radio.

"'It's a square dance flag,' I told him over our CB."

"He wanted to know where we were going. He laughed when we said to the Sunshine Festival. It was really raining."

"Then he said: 'Gee, I wish I could go.'

"Well, I said, 'come on. I'll dance with you, too.'

"Pretty soon we had truckers calling in from all over saying: 'Don't leave me out.'"

*Ladies to their seats
And gents all foller,
Thank the fiddler
And kiss the caller.*

Looking for a night out that will tax your brain, try your legs, and make your troubles disappear?

Bob Shadduck would probably recommend square dancing. He's the proprietor of Tama Trading Co. in Los Angeles, wholesale Italian grocers.

Bob Shadduck? An Italian grocer?

"It's not a very Italian name, I admit," he says. "But my wife's maiden name was Angela Mussatti. Her father started the business."

Like any business, it has problems. "Delayed shipments, for example," he says. "We get stuff from San Francisco, New York, and Italy. And there is always some kind of a slipup—bad weather or the truck doesn't get away on time. Any little thing like that can louse you up."

"You might run out of a particular item. Like Ronzoni macaroni. It's made back in Brooklyn. And there are so many people on the West Coast to whom it's just gospel—as far as macaroni is concerned."

In the face of a crisis, some guys might head for the nearest bar and have a snort. Not Bob Shadduck. He doesn't drown his troubles. He dances them away.

"When I leave the office and get out there on the floor, all I think about is hearing that call right and executing it properly."

"I've left my troubles behind."

*Shrieking of a roller coaster
Way up high,
The whistles on a beach
When a peach walks by.*

Harriet M. Schreiner found square dancing a sure cure for the blues.

"Al and I are from small towns in Wisconsin," she says. "I'm from Medford and Al's from Rib Lake. After we married, we moved to Milwaukee. And we didn't know a soul."

"I shed a few tears till we got acquainted with some people—through square dancing."

Mrs. Schreiner is a partner in Coats Business Service in suburban Milwaukee. She and Al took lessons and began square dancing 27 years ago.

"It has changed a lot since then," she says. "It has become more sophisticated, and the tunes aren't all old Western hoedowns."

But one thing hasn't changed. "Dancers," she says. "They're the friendliest people. And that's what we've gotten out of it—friends, tremendous friends."

Square dancing seems to bring out the sunshine in everyone.

"We have this little square dance flag on the antenna of our car," says Mrs. Schreiner. "It's green, has the

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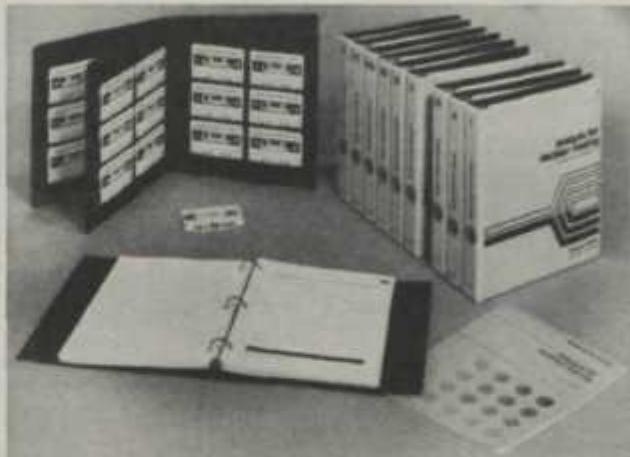
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Lower Profit Margins to Hinder Growth

CORPORATE after-tax profits—adjusted for inflation—will drop about 25 percent this year before recovering in 1981, according to the U.S. Chamber of Commerce Forecast Center.

The economy will go through a recession typical of those since World War II, the center says, but it will be milder than the 1973-75 downturn.

Inflation is unlikely to fall below ten percent before the end of the year, and long-term interest rates will remain high well into the year. Both businesses and individuals will experience massive, unlegislated tax increases, according to a report to the U.S. Chamber's board of directors, presented by Richard S. Landry, deputy chief economist for the organization.

The sluggish economic conditions will result from three major trends, Dr. Landry says. Continuing high interest rates and the sharp drop in real profits will depress fixed business investment, according to his report.

Similarly, credit market problems will hold housing starts below 1.5 million for most of 1980, and the high level of consumer spending in 1979, which took place largely at the expense of savings, will taper off. The report adds that consumer purchases will be discouraged by a stagnation of real spendable income, a higher savings rate, and high interest costs.

Alarming rates

"High rates of inflation and increases in nominal wages are increasing the tax burden on both individuals and corporations at alarming rates," the report notes. Because of these factors, "personal income taxes are expected to increase a massive 15.6 percent" for 1980 while the purchasing power of workers' wages actually declines, says Dr. Landry.

Increased tax revenues helped to reduce the federal deficit to \$28 billion for fiscal 1979, down from an original administration estimate of \$61 billion, he says. However, the fiscal 1980 deficit is expected to be \$43 billion rather than the administration's initial figure of \$39 billion, mainly because of increased federal spending and lower

corporate tax revenues resulting from lower profits, the report says.

In addition to a 25-percent fall in corporate profits, after adjustments for the effects of inflation on inventory valuation and capital consumption allowances, profit margins per unit of output will continue a 15-year decline, dropping to only 2.4 percent this year, the report says.

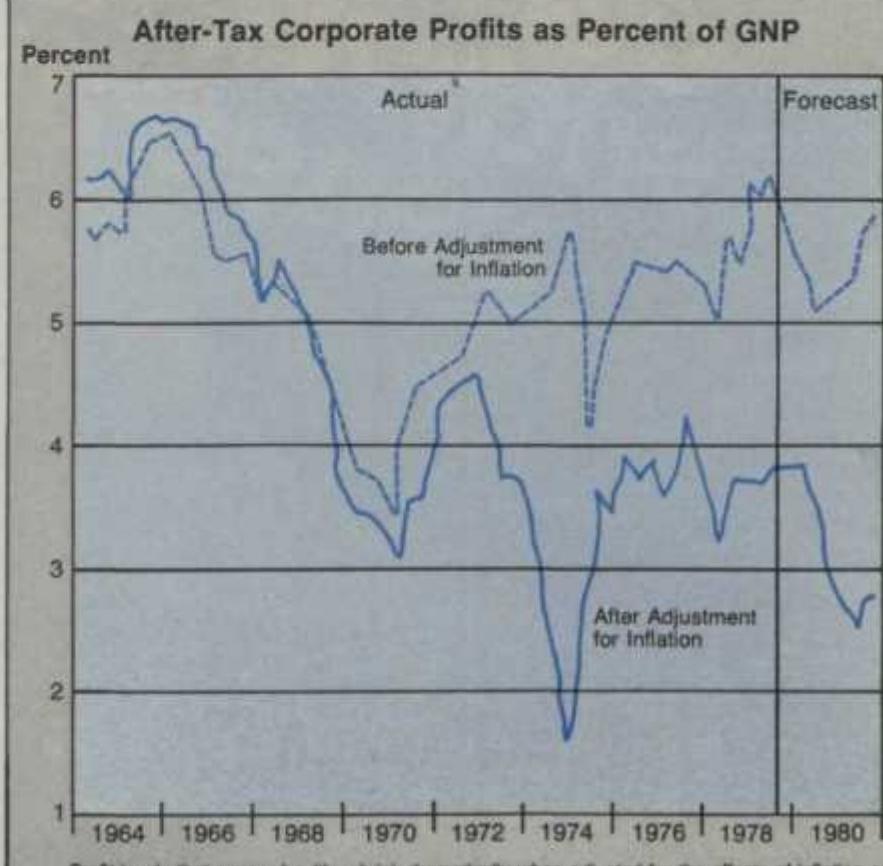
"In light of these falling profit margins, it is apparent that U.S. business has borne a large proportion of the burden of the recent high inflation and has in fact prevented inflation from increasing still further."

Slow growth

The low profit margins have serious long-term implications for the U.S. economy, the report points out. In the absence of tax relief to stimulate savings and investment, low profit mar-

gins will continue to hinder investment in new plant and equipment. The slow growth of such investment has been the major cause of poor U.S. productivity performance compared to other major industrial countries, the report says.

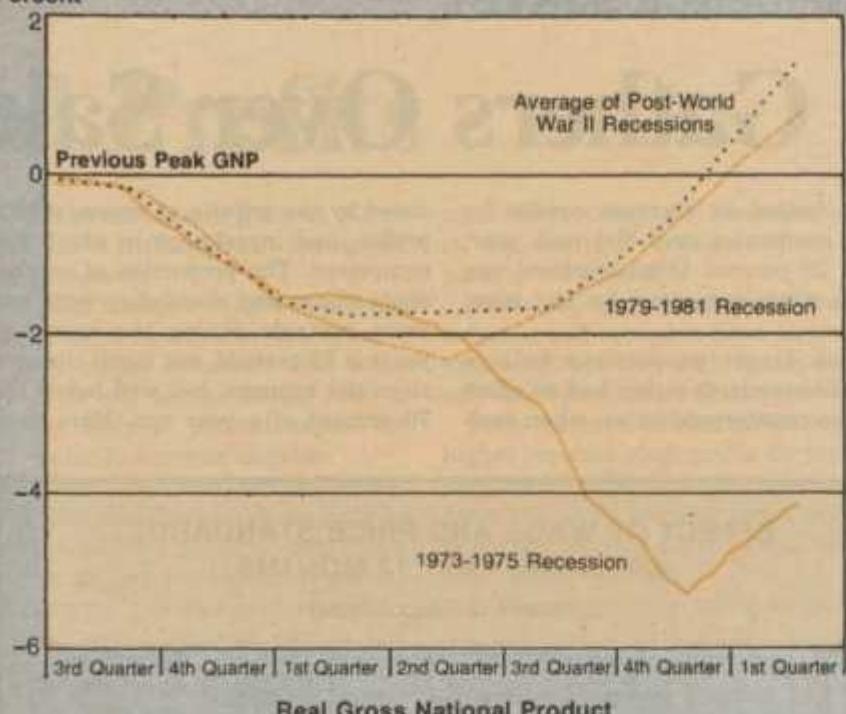
Low productivity growth holds down real wages, forces prices upward, weakens the dollar in international money markets, and makes U.S. exports less competitive, says the report. Slower growth in major overseas markets will also hold down U.S. exports this year, Dr. Landry predicts, preventing further improvement in the trade deficit. Real growth in the European Economic Community is forecast at 1.5 percent, significantly less than the 3.4 percent estimated for 1979, he says, and Japanese growth will probably fall from the 5.8 percent of 1979 to less than four percent this year. □



Source: U.S. Chamber of Commerce Forecast Center

Percent

The 1980 Recession



Previous Peak GNP

Average of Post-World War II Recessions

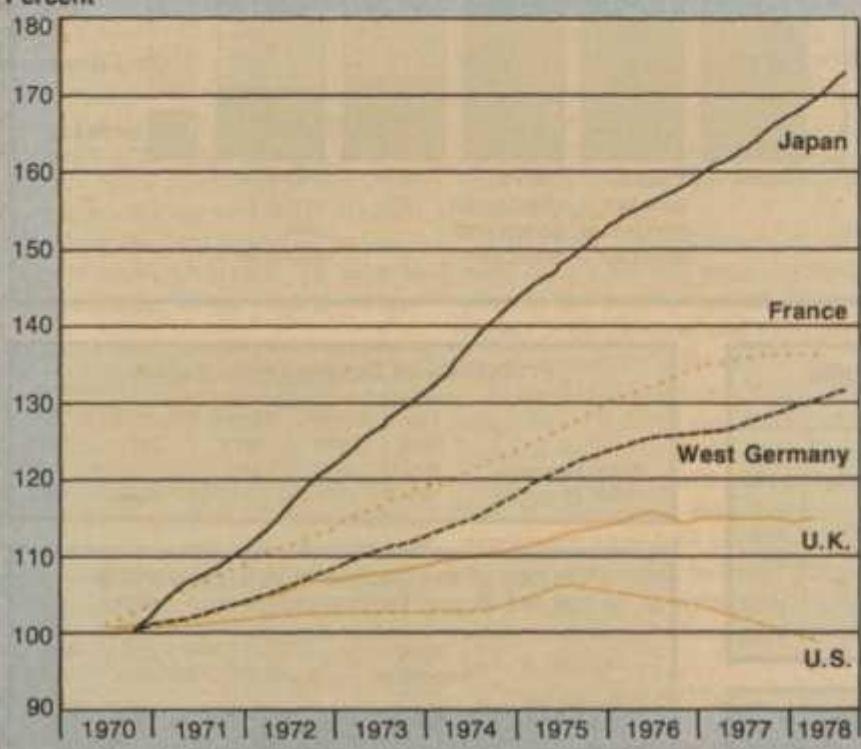
Real Gross National Product

The drop in gross national product during the 1979-1981 recession should be very close to the average for other post World War II recessions, but less severe than in 1973-1975.

Source: U.S. Chamber of Commerce Forecast Center

Percent

Growth of Capital per Worker



(1970 = 100% for each country)

Since 1970, Japan has nearly doubled its capital investment per worker, while the United States has actually lost ground.

Source: U.S. Chamber of Commerce Forecast Center

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BUSINESS CONFIDENCE SURVEY

Gloom Gathers Over Sales

BUSINESS LEADERS continue to be pessimistic about increased sales and profits for their companies, according to the latest quarterly survey of business confidence conducted by the U.S. Chamber of Commerce Survey Center and the Gallup Organization.

Profit expectations continue to decline; only 28 percent of the executives responding now see an increase in pre-tax profits during the next 12 months, down from 32 percent in the summer and 51 percent a year ago.

Pessimism about sales has also increased, but not as much. Sixty percent now expect an increase in sales during the next 12 months, down from 63 percent in the summer and 74 percent a year ago.

The corporate tax system is a major cause of the decline of U.S. leadership in research and development and technological innovation in recent years, according to more than four out of five of the business leaders surveyed. Sixty-one percent blame the decline on regulations governing procurement.

Voluntary standards

The survey, which included executives in a cross section of firms by size, industry, and region, shows that the President's voluntary standards for pay and price increases are viewed as largely ineffectual in containing inflation.

Thirty-five percent think the stan-

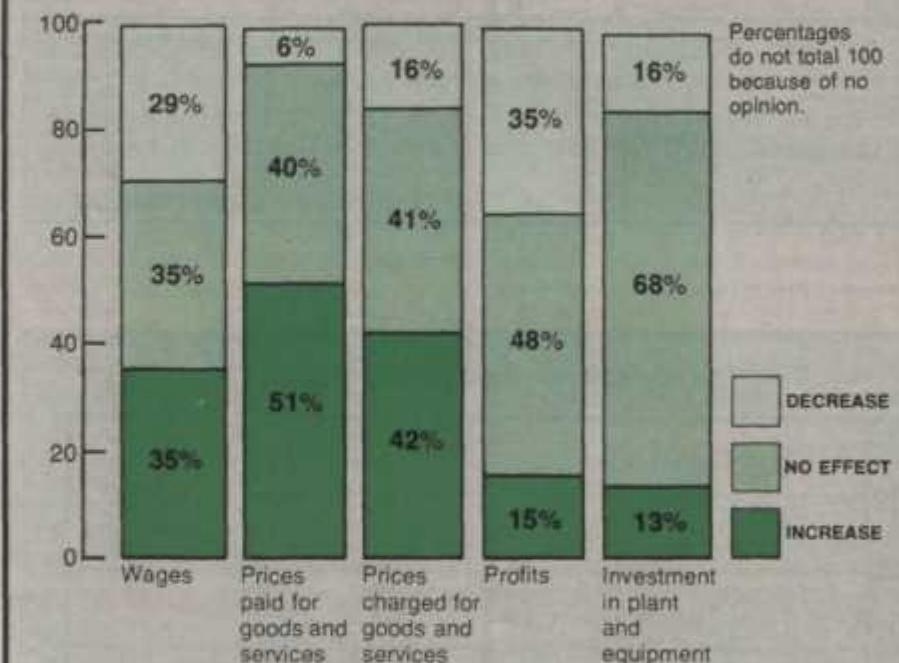
dards helped to decrease profits for their companies over the past year, while 29 percent think workers' pay raises were decreased by the standards.

Much larger proportions believe that the standards either had no effect or were counterproductive, when eval-

uated by the criteria of wages, prices, profits, and investment in plant and equipment. The proportion of respondents who expect mandatory wage and price controls during the next two years is 59 percent, not much changed since the summer, but well below the 76 percent of a year ago. More than

EFFECT OF WAGE AND PRICE STANDARDS
OVER THE PAST 12 MONTHS

(Percent of Respondents)



Prospects for Increased Sales and Profits After Adjusting for Inflation

	Fall 1978	Winter 1979	Spring 1979	Summer 1979	Fall 1979
Sales:					
1 year	74%	76%	73%	63%	60%
4 years	83%	85%	82%	78%	80%
Before-tax profits					
1 year	51%	45%	48%	32%	28%
4 years	62%	60%	60%	53%	54%

Probability of Double-Digit Inflation

	Fall 1978	Winter 1979	Spring 1979	Summer 1979	Fall 1979
Within 12 months	51%	52%	64%	72%	71%
Within 24 months	56%	54%	63%	70%	64%

Causes of the Decline in U.S. Leadership in R & D and Technological Innovation

	Very Important	Important	Not Very Important	Not Related
Corporate tax system	48%	33%	7%	2%
R & D procurement regulations	23%	36%	17%	4%
Patent system	5%	18%	49%	10%
Other	16%	5%	2%	1%

Probability of Recession

	Fall 1978	Winter 1979	Spring 1979	Summer 1979	Fall 1979
Within 12 months	38%	50%	50%	73%	70%
Within 24 months	52%	63%	63%	77%	72%

and Profits

half thinks the current controls will be expanded to include credit during the next 12 months.

Business leaders are split 41 percent to 40 percent on whether the value of the U.S. dollar compared with other currencies will decline during 1980 or stabilize. Only 17 percent expect the U.S. dollar to increase in value.

Business people remain pessimistic about the effectiveness of many government policies affecting the economy, the outlook for economic activity this year, and inflation and recession.

Thirty-seven percent expect bad times in the economy during the next five years, while 27 percent expect good times. Fully 82 percent think the general business climate is becoming less favorable for their companies to make a profit, up from 74 percent a year earlier.

Continued inflation

Over the past 12 months, top executives' pessimism about double-digit inflation has increased. Business leaders now assign a 71 percent chance of continued double-digit inflation within the next 12 months and a 64 percent chance within 24 months. These percentages are up from 51 percent and 56 percent a year ago.

At the same time, the probabilities of a recession have increased dramatically. Over the past year, the probability of recession within 12 months increased from 38 percent to 70 per-

cent; the probability of recession within 24 months increased from 52 percent to 72 percent.

Since last summer, attitudes toward inflation and recession have improved somewhat, but they still remain markedly more pessimistic than a year ago.

Forty percent of executives expect higher common stock prices during the next 12 months, but they are much more bullish for the long term, with 78 percent expecting higher stock prices four years from now.

A strong majority would support a tax cut now, if government spending were reduced. The question was: "The administration has opposed any tax cuts for the time being, but many members of Congress are pressing for immediate tax reductions. Which would you prefer?"

Tax reduction now, even if spending is not cut	5%
Tax reduction now, only if spending is reduced	66%
No reduction at this time	28%

In principle, 72 percent of the executives oppose both federal loan guarantees and tax credits for large firms that are facing bankruptcy. Ten percent favor tax credits; seven percent favor loan guarantees; and four percent favor both. Another seven percent were undecided.

Forty-four percent expect more difficulty with labor and wage negotiations than in the past few years; 46 percent expect little change; and nine percent expect less or no difficulty.

Prospects for foreign trade appear improved. Of those executives who expressed an opinion, 61 percent think total U.S. exports will increase as a result of the recent multilateral trade agreement to reduce tariffs and eliminate other barriers to trade. Thirty-six percent expect no change in total U.S. exports, and only three percent anticipate a decline.

Smaller percentages expect the agreement will increase their own companies' sales opportunities abroad. Thirty-six percent of the executives did not volunteer an opinion, in many cases because their companies are not involved in exports. □

Likelihood of Mandatory Wage-Price Controls

Fall 1978	Winter 1979	Spring 1979	Summer 1979	Fall 1979
78%	83%	73%	61%	59%

How the Government Will Do at Fighting Inflation Over Next Year or Two

	Spring 1979	Summer 1979	Fall 1979
Good job	1%	-	2%
Only a fair job	33%	26%	34%
Poor job	65%	73%	63%

* Less than 0.5%



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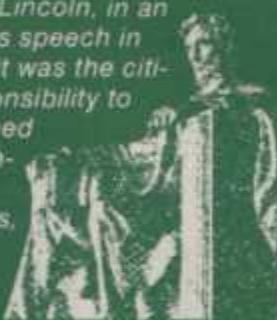
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PEOPLE IN BUSINESS

Treating the Traveling Woman Right

Regina M. Henry logged more than 60,000 miles in business trips last year.

"Obviously, I love to travel. And because I've done so much of it, I am well aware of the special needs of the traveling woman," she says.

As a travel consultant and public relations representative for Western International Hotels, Seattle, Wash., Ms. Henry believes that hotels and restaurants should try extra hard to make women travelers feel comfortable.

"People make all the difference. If a traveler is treated right, the whole trip becomes a better experience."

"Since the number of women business travelers is on the upswing, I think it is important to educate hotel personnel and management about their preferences."

For example, when she dines alone, Ms. Henry always asks the maître d' to seat her along the wall of the restaurant. "The maître d' should realize that seating an unaccompanied woman at a table in the middle of the restaurant makes her feel conspicuous," she says. "The woman should sit along the wall so as to have a better view of the room and to be less noticeable."

"Likewise, waiters or waitresses should take their cue from the diners as to who is to receive the check. This prevents an uncomfortable and sometimes embarrassing scramble for the check."

A great deal of Ms. Henry's professional life has been spent on the road. Before joining Western International, she worked in public relations for the National Football League and for Revlon in New York City.

According to a survey completed last year by Western International, more than three million women spent 32 million nights on the road. On average, women take longer, but make fewer trips than their male counterparts. The average age of a traveling woman is 38, compared to 44 for men. And the number of traveling businesswomen is increasing three times faster than that of businessmen.

"I know from firsthand experience, and lots of it, that traveling can be a lot



Regina Henry has spent much of her working life on the road. "If the woman traveler is treated right, the whole trip becomes a better experience," she says.

of fun if you know the ins and outs," says Ms. Henry.

Capitalizing on her experiences, Ms. Henry has put together a booklet entitled, *Tips for the Woman Business Traveler*. It includes suggestions on tipping—who, when, and how much—entertaining customers or clients, and packing.

The well-dressed Ms. Henry takes only two skirts and two suit jackets for a three or four-day business trip. "I also pack several blouses or sweaters that can be worn with those jackets or skirts. Mix and match, that's my policy. You can build an extensive travel wardrobe with very few pieces, and you travel lighter."

Do-It-Yourself Management Development

J. Sterling Livingston has concluded that competent managers are self-made people whose bosses want them to succeed. Dr. Livingston, who left the Harvard Business School after 25 years, founded the Sterling Institute in 1968 to teach practical management skills through a do-it-yourself approach.

"Three things determine the development of a manager," says Dr. Livingston.

"One, a person has to decide that he or she wants to acquire the knowledge and skills necessary. Second, the person has to apply what he or she has learned to the job. Third, the boss has to be involved in the process."

The third factor is critical, according to statistics compiled by Dr. Livingston at General Motors and other companies. "GM asked us in 1974 to help it comply with the equal employment opportunities law by setting up management training programs for women and minorities," says Dr. Livingston. "After interviewing women and minorities who had moved into management, we discovered that in each case, the boss had played a major role in the manager's failure."

Because the boss is so crucial, Dr. Livingston expanded his training program to include executives at higher levels. "We didn't develop one program, we developed three: Premanagement for those who need to decide if they want to commit themselves to becoming managers, first-level management for the supervisory types, and boss-level management for the higher-ups. If you don't get all three involved in the process, you are not likely to develop people effectively."

Developing managers is obviously worthwhile, but not everybody can grow up to be president of the company or



J. Sterling Livingston stresses practical approaches to management.

even sales manager. What happens to those people who groom themselves for management and are never promoted?

"This creates another kind of problem," Dr. Livingston says. "If you train 800 people at a company to move into management and there are only 100 positions, obviously somebody's going to be disappointed. It is highly competitive, and people have to realize that."

The Sterling Institute approach to management training demands searching self-analysis. "People have fantasies about themselves, they really do," says Dr. Livingston, whose firm is based in Washington, D. C. "Without a defined program, they have no way of assessing their natural managerial styles and capabilities. Honest self-evaluation is the key."

Almost a third of the people who have gone through the premanagement program perfected by Dr. Livingston have taken another career path. "We can go into any organization, and that figure remains fairly consistent," he says. "Even if the firm's management has selected the people, about 30 percent will decide they don't want management."

The basic program uses videotaped case studies and a round-robin of discussion among six or eight people who decide what they would do or should do in various management situations. "Most people don't think reasonably and rationally about every situation," says Dr. Livingston. "After a certain number of situations, the individual finds a pattern to his or her responses and can determine how effective that pattern is."

What about the business schools like Harvard? Aren't they producing the managers? "Sure," says Dr. Livingston, "but not everyone wants or needs an MBA. Also, business schools are limited in that what they do is not designed to be applied on the job."

Success Doesn't Smell At All

John D. Bryson has smelled them all—the stench of sewage treatment plants, the nauseating fumes of paint factories, the sickly scent of hospital cancer wards, the obnoxious order of fire-ravaged stores. But Mr. Bryson does more than just wrinkle his nose. He sells a solution.

As vice president of the Ventures Division of Will Ross, Inc., Milwaukee, Wis., Mr. Bryson has become an olfactory expert while promoting a product called Plastocon that neutralizes odors rather than simply making them as most home deodorizers do. "So far," says Mr. Bryson, "nothing can duplicate the human nose. Scientists don't know why we smell."

They also aren't at all sure how Plastocon works. "There is no reaction between the chemical compound and the malodor," says Mr. Bryson. "The people at the testing laboratory just shook their heads after a while. They know the smell either disappears or is greatly reduced in intensity, but they don't know why."

The snag in the smell business is that every nose is unique. A perfume that entrances one person turns off another. "There is no way to measure exactly the strength of odors," says Mr. Bryson. "Also, there is the unexplained phenomenon of odor fatigue. You go into a room, and the smell is awful. After a while, it is not so noticeable. You have saturated the channels in your nose to that odor."

What is smell? All odors are gases, says Mr. Bryson. There are ten basic bad ones—ammonia, hydrogen, and sulfate among them—but odors are usually a complicated mixture. "This is what drives us crazy in trying to solve odor problems. We have to guess how much Plastocon is needed in each case. We come pretty close nearly always," he adds.

The Plastocon concept began with two inventors who had an idea of getting a liquid to pass through a membrane and come out as a gas.

The idea excited Mr. Bryson because deodorizers are based on a spray or gel that evaporates. "The first day, the usual deodorizer is gangbusters," says Mr. Bryson, "and the next day, it is next to gangbusters, and after that you wonder if it is there."

After several years of research, test-

ing, and some luck, the firm had a product ready to market. Essentially, a compound of 52 different oils permeates a low-density polyethylene material, releasing a gas that neutralizes odors. "We don't know how it works, but it does," says Mr. Bryson. "If you release too much gas, you can smell the compound—it has a licorice or bubble gum scent."

Plastocon comes in ready-made and made-to-order industrial sizes and a home model as well as disposable cylinders that last up to six months in offices and average rooms. More than 10,000 systems have been installed in tanneries, factories, sewage treatment and rendering plants, hospitals, and homes.

"I have the home model," says Mr. Bryson. "You know when you turn the coffee on downstairs, you can smell it upstairs in a matter of seconds. Odors travel at an unbelievable speed, almost the speed of light. The neutralizing compound does, too."

The amount of chemical released into the air is minuscule, says Mr. Bryson, but initially the federal protective agencies were concerned. However, the Environmental Protection Agency decided that the Plastocon compound was really just a perfume, and the Food and Drug Administration decided that all the oils in the compound were nontoxic.

"We aren't too unhappy about being ignored by the feds," says Mr. Bryson, "but many companies today are so gunshy that if you don't have an EPA clearance, they don't want to talk to you. However, with our product, the proof is in the smelling."



John D. Bryson is an olfactory expert. "Nothing can duplicate the human nose," he says, "and we don't know why we smell."

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R—Regional
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The Kenworth Truck Company is a long-time client of Cole & Weber, Inc. Seattle, Washington. We incorrectly listed another advertising agency in our November issue. Our apologies to all concerned.

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WHITE HOUSE CONFERENCE

Shaping a New Future for Small Business

THE WHITE HOUSE CONFERENCE ON SMALL BUSINESS that convenes in Washington this month has the potential for improving the health of small business—and all business.

There is no direct precedent for this conference. However, the last national inquiry into the subject—President Eisenhower's Cabinet Committee on Small Business—produced some landmark statutes. Two examples are the authorization of private venture capital companies and the Subchapter S provisions of the Internal Revenue Code.

A realistic look at the problems of small business affords the nation's leaders one of the best opportunities to help our flagging economy. Small businesses are major employers, taxpayers, suppliers to big business, and—often overlooked—innovators.

Innovation accounted for 45 percent of U. S. economic growth from 1929 to 1969, the Commerce Department has found. One half of the major inventions has come from firms with fewer than 1,000 employees. Yet American innovation is lagging today. And that is just one serious symptom of the multifaceted malaise now afflicting American business in general and small business in particular.

But there is no point in detailing the numerous problems of the small business community. That is one purpose of the conference. Our immediate concern is for its success.

There are two possible obstacles. The first is

the conference agenda. Will it be confined to producing carefully considered policy recommendations that will alleviate specific small business problems? Or will the event deteriorate into a noisy and unfocused political demonstration?

There are many worthy causes, each deserving of its own place in the sun. This White House conference is supposed to be that place for small business. Nothing worthwhile will be accomplished if it is turned into a general gripe session on all the ills of American society.

The other barrier to success is that some conference participants and practically all politicians seem to have a bias for new programs. Doing something is often mistaken for progress, while complaints—even constructive ones—are disparaged as negativism.

But many of the problems of small business today and, indeed, of the entire economy have resulted from ill-advised and unsuccessful government action. Opinion polls indicate a widespread recognition of this fact among small business people. If the conference fails to reflect this thinking, it will have betrayed its constituency.

Our apprehension should not be mistaken for pessimism. America's put-upon small business operators want the conference to succeed. America's economy needs it to succeed. We sincerely hope it does. □

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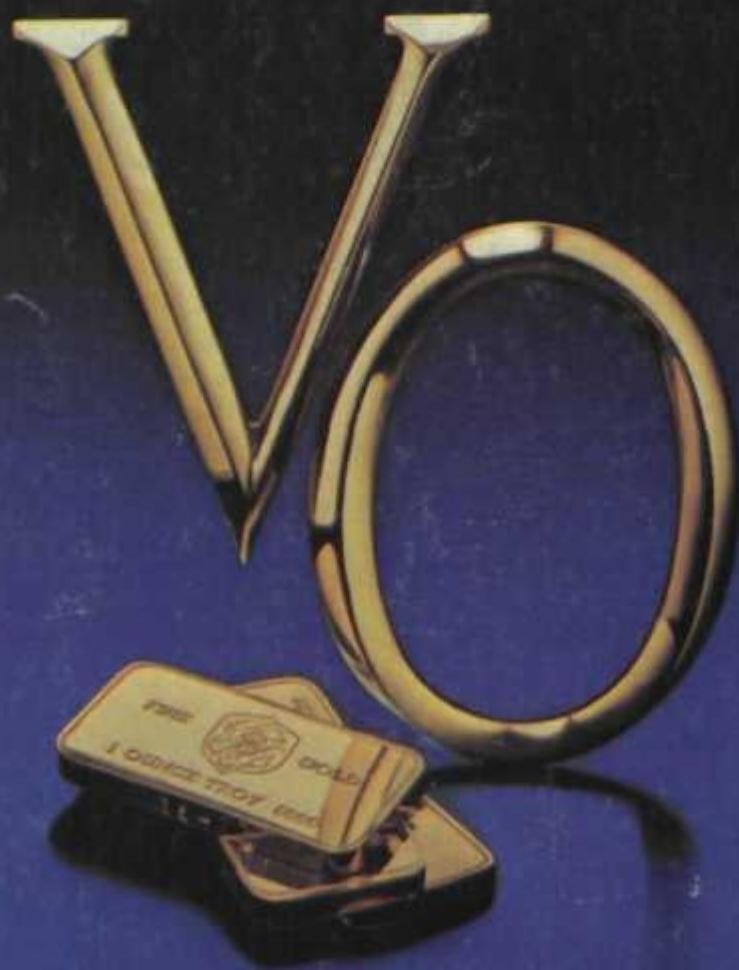
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